APS

0000095039

Leland R. Snook
Director
State Regulation & Pricing

Tel. 602-250-3730
Fax 602-250-3003
e-mail Leland.Snook@aps.com

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

ORIGINAL

Arizona Corporation Commission
DOCKETED

MAR 27 2009

DOCKETED BY

March 27, 2009

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: APS COMPLIANCE WITH DECISION NO. 70667 – APS/PINNACLE WEST COMMUNICATIONS WITH CREDIT RATING AGENCIES
Docket No. E-01345A-08-0172

Attached please find copies of Arizona Public Service Company (APS) and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24th, 2008):

> "Arizona Public Service Company shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis. The first such monthly report shall be due on February 1, 2009, and the monthly filing shall continue until the conclusion of Arizona Public Service Company's general rate case. Thereafter, Arizona Public Service Company shall make such filings on a six month basis, with the first filing due by January 1, 2010."

This monthly filing covers the communications with rating agencies from February 20, 2008 through March 20, 2009. If you have any questions or concerns please contact David Rumolo at (602)-250-3933.

Sincerely,

Leland Snook \ SC

Leland R. Snook

LS/dst

Attachments

CC: Ernest Johnson (unredacted)
Brain Bozzo (unredacted)
Barbara Keene (unredacted)
Terri Ford (unredacted)

RECEIVED
2009 MAR 27 P 4: 18
AZ CORP COMMISSION
DOCKET CONTROL

Rating Agency Communication Log

Date	Person	APS/PNW Personnel	Subject	Comment
2/22/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Jim regarding new APS debt issue	
2/22/2009	Phil Smyth, Fitch	Jim McGill	E-mail from Jim regarding new APS debt issue	
2/22/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Jim regarding new APS debt issue	
2/23/2009	Phil Smyth, Fitch	Jim McGill	E-mail from Jim regarding new APS debt issue	
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2/23/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Laura regarding new APS debt issue	
2/23/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Laura regarding new APS debt issue ratings	
2/23/2009	Laura Schumacher, Moodys	Jim McGill	Called Laura per her e-mail request - she wanted to discuss press release on new debt and opinion articles	
2/23/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Laura regarding new APS debt issue press release	
2/23/2009	Laura Schumacher, Moodys	Jim McGill	Called Laura per her e-mail to discuss press release on new debt - no material corrections	
2/23/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Laura regarding APS and PNW opinions	
2/23/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Tony regarding new APS debt issue	
2/23/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Jim regarding new APS debt issue	
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2/23/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Tony regarding new APS debt issue	
2/26/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony responding to bad debt write-offs data request	Confidential
3/3/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Tony requesting 2008 financials for SunCor	
3/3/2009	Tony Bettinelli, S&P	Rufad Omanovic	E-mail from Tony requesting PPA information	
3/3/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony with SunCor financial statements	
3/3/2009	Tony Bettinelli, S&P	Rufad Omanovic	E-mail from Tony requesting covenant information	
3/5/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony responding to bad debt write-offs data request	Confidential
3/10/2009	Tony Bettinelli, John Whitlock, Richard Cortright, S&P	Chris Froggatt and Jim McGill	Attended S&P's 16th Annual Utilities Conference 2009	
3/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Tony with question re: statement of cashflows	
3/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony responding to question re: statement of cashflows	
3/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from Tony regarding statement of cashflows	
3/16/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony responding to PPA data request	Confidential
3/16/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony with liquidity survey response	Confidential
3/16/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to Tony responding to covenant data request	

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Sunday, February 22, 2009 1:31 PM
To: Schumacher, Laura
Subject: RE: Liquidity Info

Laura,
It is possible that we will be going to market first thing Monday (2/23) morning. Could you please fax (or send a pdf) your rating letter asap so I can forward it to underwriters counsel. Also, we are considering doing a 10 year note with a put option in year 4. Would that result in a different rating? I will forward potential language. We haven't put it in a pro supp yet.

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Jim,

We notice the Pinnacle information is consolidated. Can you please also give us the balances for the holding company only? Can you also tell us of the outstanding balances, how much is cash draws vs LCs vs CP cover (if any).

Thanks,
Laura

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Jim

<<200812-31 Liquidity.xls>>

damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Sunday, February 22, 2009 1:36 PM
To: philip.smyth@fitchratings.com
Subject: Rating Letter

Phil,
It's possible that we may go to market with our bond deal Monday (2/23). Would you please fax me or send me a pdf of your rating letter asap. Also, we may issue a 10 year note with a put option in year 4. Would that change your view on the rating?

Jim

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Sunday, February 22, 2009 1:37 PM
To: Bettinelli, Antonio
Subject: RE: Indenture

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Jim

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Fri 2/6/2009 9:59 AM
To: McGill, James T(Z71171)
Subject: RE: Indenture

I'll be at my desk. Just call when available.

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Thursday, February 05, 2009 5:27 PM
To: Bettinelli, Antonio
Subject: Re: Indenture

Open 7 to 9 and 10 to 12 (Phx time)

From: Bettinelli, Antonio
To: McGill, James T(Z71171)
Sent: Thu Feb 05 17:11:54 2009
Subject: RE: Indenture

Let's chat tomorrow. What works for you?

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Wednesday, February 04, 2009 3:05 PM
To: Bettinelli, Antonio
Subject: Indenture

Tony,
Attached is the indenture for the potential upcoming debt issue. Let me know if you have any questions.

Jim

<<US_NE_500297215_3.DOC>>

Email Firewall made the following annotations

--- NOTICE ---

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From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 6:37 AM
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--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]

Sent: Monday, February 23, 2009 6:40 AM

To: McGill, James T(Z71171)

Subject: RE: Liquidity Info

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 6:50 AM
To: 'Schumacher, Laura'
Subject: RE: Liquidity Info

One tranch. We have a call with underwriters at 9 your time to decide if we'll go today. I just got off the phone with one of them and they are going to recommend that we do.

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this e-mail message.

From: Philip.Smyth@fitchratings.com
Sent: Monday, February 23, 2009 6:50 AM
To: McGill, James T(Z71171)
Subject: Re: FW: Rating Letter

Jim,

Please send me a copy of the offerning memorandum or prospectus and I will get you a rating letter ASAP.

Phil

James.MCgill@pinnaclewest.com
02/23/2009 08:37 AM

To: Philip.Smyth@fitchratings.com
cc:
Subject: FW: Rating Letter

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 6:53 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: Pro supp

Attachments: 2146740_46302T01_cp.PDF

2146740_46302T01
_cp.PDF (188 K...

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 6:54 AM
To: 'Bettinelli, Antonio'
Subject: Pro Supp

Attachments: 2146740_46302T01_cp.PDF

Tony,
Here's the prospectus supplement. Looks like we'll be announcing this am.

Jim

2146740_46302T01
_cp.PDF (188 K...

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 23, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT (To Prospectus Dated June 28, 2006)

Arizona Public Service Company

$ % Notes due 20

This is an offering by Arizona Public Service Company of $ of its % Notes due 20 , referred to in this prospectus supplement as the "notes." Interest on the notes is payable on and of each year, beginning on , 2009. The notes will mature on , 20 . We may redeem some or all of notes at any time at the applicable make-whole redemption price described under the caption "Description of the Notes—Optional Redemption" in this prospectus supplement, plus accrued and unpaid interest to the redemption date. The notes do not have sinking fund provisions. The notes will be issued only in denominations of $1,000 and integral multiples of $1,000. We do not intend to list the notes on any securities exchange or quotation system.

The notes will be our unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.

Investing in the notes involves risk. See "Risk Factors" on page S-4 of this prospectus supplement.

	Per Note	Total Notes
Initial public offering price[1]	%	$
Underwriting discount	%	$
Proceeds, before expenses, to Arizona Public Service Company	%	$

(1) Plus accrued interest, if any, from , 2009 to the date of delivery, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to purchasers in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about , 2009.

Joint Bookrunning Managers

BARCLAYS CAPITAL **BNY MELLON CAPITAL MARKETS, LLC** **CREDIT SUISSE**

The date of this prospectus supplement is , 2009.

TABLE OF CONTENTS

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus or to documents to which we have referred you. We have not authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of the notes in any jurisdiction where the offer is not permitted. This document may only be used where it is legal to sell the notes. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which will not apply to the notes. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

The accompanying prospectus also contains information about Pinnacle West Capital Corporation and its securities, which does not apply to the notes. We are a wholly-owned *subsidiary* of Pinnacle West Capital Corporation. The notes are solely our obligations and not obligations of Pinnacle West Capital Corporation. Pinnacle West Capital Corporation is not guaranteeing or providing any credit support for the notes.

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process. Under the registration statement, we may sell securities, including the notes, of which this offering is a part.

SUMMARY

This summary may not contain all of the information that may be important to you. You should read this prospectus supplement and the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus in their entirety before making an investment decision. The following material is qualified in its entirety by reference to the detailed information and financial statements included or incorporated by reference in this prospectus supplement.

The Company

We were incorporated in 1920 under the laws of the State of Arizona and are a wholly-owned subsidiary of Pinnacle West Capital Corporation ("Pinnacle West"). We are a vertically-integrated electric utility that provides either retail or wholesale electric service to most of the State of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. We currently have approximately 1.1 million customers. Our principal executive offices are located at 400 North Fifth Street, P.O. Box 53999, Phoenix, Arizona 85072-3999, and our telephone number is 602-250-1000.

The Offering

Issuer	Arizona Public Service Company.
Securities Offered	$ of % Notes due 20 .
Maturity	, 20 .
Interest Rate	% per annum.
Interest Payment Dates	and of each year, beginning , 2009 (and including the date of maturity).
Record Date for Interest Payments	The record date for interest payments on the notes will be for the interest payment date and for the interest payment date.
Use of Proceeds	To repay outstanding short-term debt. See "Use of Proceeds" in this prospectus supplement. The underwriters and/or their respective affiliates are lenders under the committed revolving credit facilities that are expected to be ultimately repaid from the net proceeds from this offering.
Ratings	BBB- by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), Baa2 by Moody's Investors Service, Inc. ("Moody's") and BBB by Fitch, Inc. ("Fitch"). Note that a securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Optional Redemption	All or a portion of the notes may be redeemed at our option at any time or from time to time on at least 30 days but not more than 60 days notice. The redemption price for the notes to be redeemed on any redemption date will be equal to the greater of 100% of the principal amount of the notes being redeemed on the redemption date or the applicable make-whole price described under "Description of the Notes—Optional Redemption" in this prospectus supplement, plus, in each case, accrued and unpaid interest thereon to the redemption date.
Ranking	The notes will be our unsecured senior obligations, will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding and will be effectively subordinated to any secured debt we may issue in the future to the extent of the value of the collateral. As of December 31, 2008, we had approximately $3.4 billion aggregate principal amount of unsecured senior indebtedness outstanding that would have ranked equally with the notes.
Covenants	The notes will be subject to the limitation on liens covenant described under "Description of the Notes—Limitation on Liens" in this prospectus supplement. However, this covenant is subject to a number of important exceptions and qualifications, including an exception permitting secured debt in an amount that does not exceed 10% of Tangible Assets (as defined in that description), which, at December 31, 2008, was approximately $1.0 billion. As of December 31, 2008, we had approximately $1.3 million of outstanding secured debt.
Form of Notes	The notes will be represented by one or more global securities held in the name of The Depository Trust Company ("DTC") in a minimum denomination of $1,000 and any integral multiple thereof.
Trustee	The Bank of New York Mellon Trust Company, N.A. See "Description of the Notes—Regarding the Trustee" in this prospectus supplement.
Risk Factors	See "Risk Factors" in this prospectus supplement for a discussion of factors you should carefully consider before you decide to invest in the notes.

Selected Financial Data (thousands of dollars):

The following selected financial data have been derived from our audited financial statements, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm. The financial data set forth below should be read in conjunction with our financial statements, related notes and other financial information incorporated by reference in this prospectus supplement. See "Where You Can Find More Information" in this prospectus supplement.

	Year Ended December 31,		
	2008	2007	2006
Electric Operating Revenues	$3,133,496	$2,936,277	$2,658,513
Net Income	$ 262,344	$ 283,940	$ 269,730

	As of December 31, 2008	As Adjusted(1)	
		Amount	Percentage
Long-term Debt (including current maturities)(2)	$2,851,116	$	%
Short-term Debt	521,684		
Common Stock Equity	3,339,150		
Total Capitalization	$6,711,950	$	100.0%

(1) Adjusted for the issuance of the notes and the application of the net proceeds therefrom. See "Use of Proceeds" in this prospectus supplement.

(2) Includes unamortized debt discount of approximately $7.9 million.

RISK FACTORS

See the discussion of risk factors contained in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the "2008 Form 10-K"), which is incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about certain risks, in addition to the risk described below, relating to our business and an investment in the notes.

An investment in the notes involves a significant degree of risk. Before investing in the notes, you should carefully consider the discussion of those risks and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the heading "Forward-Looking Statements" in this prospectus supplement. Although we try to discuss material risks in the risk factor description, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict these risks or estimate the extent to which they may affect our business, financial condition, cash flows or operating results.

If the ratings of the notes are lowered or withdrawn, the market value of the notes could decrease.

A rating is not a recommendation to purchase, hold or sell the notes, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The ratings of the notes address the likelihood of the timely payment of interest and the ultimate repayment of principal of the notes pursuant to their respective terms. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances in the future so warrant. In the event that any of the ratings initially assigned to the notes is subsequently lowered or withdrawn for any reason, you may not be able to resell your notes without a substantial discount.

FORWARD-LOOKING STATEMENTS

The forward-looking statements disclaimer set forth below supersedes any similarly entitled forward-looking statements disclaimer contained in the accompanying prospectus.

This prospectus supplement, the accompanying prospectus and the information incorporated by reference in this prospectus supplement may contain forward-looking statements based on current expectations, and we do not assume any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. In addition to the Risk Factors described in Part I, Item 1A, of the 2008 Form 10-K, these factors include, but are not limited to:

- state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case;
- increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs;
- our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions;
- volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities;

- the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change;
- the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions;
- the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona;
- regional, national and international economic and market conditions, including the strength of the housing, credit and financial markets;
- the potential adverse impact of current economic conditions on our results of operations;
- the cost of debt and equity capital and access to capital markets;
- restrictions on dividends or other burdensome provisions in new or existing credit agreements;
- our ability to meet debt service obligations;
- current credit ratings remaining in effect for any given period of time;
- the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trusts, pension and other postretirement benefit plan assets, the amount of required contributions to the pension plan and contributions to our nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits and our ability to recover such costs;
- volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts);
- changes in accounting principles generally accepted in the United States of America, the interpretation of those principles, and the impact of the adoption of new accounting standards;
- customer growth and energy usage;
- weather variations affecting local and regional customer energy usage;
- power plant performance and outages;
- transmission outages and constraints;
- the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies;
- risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs;
- the ability of our power plant participants to meet contractual or other obligations;
- technological developments in the electric industry;
- the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for our forward-looking statements contained in this prospectus supplement and the accompanying prospectus.

WHERE YOU CAN FIND MORE INFORMATION

Available Information

We file annual, quarterly and current reports and other information with the SEC under File No. 1-4473. Our SEC filings are available to the public over the Internet at the SEC's website: *http://www.sec.gov*. You may also read and copy any materials we file with the SEC at the SEC's public reference room, at 100 F Street, N.E., Washington D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available on Pinnacle West's website at *http://www.pinnaclewest.com*. The other information on Pinnacle West's website is not part of this prospectus supplement or the accompanying prospectus.

Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, except for information superseded by information in this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, excluding, in each case, information deemed furnished and not filed, until all of the notes offered by this prospectus supplement are sold.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2008; and
- Current Report on Form 8-K filed on January 26, 2009.

These documents contain important information about us and our finances.

We will provide to each person, including any beneficial owner, to whom a prospectus supplement and the accompanying prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement and the accompanying prospectus. You may request a copy of these filings, at no cost, by writing, telephoning or contacting us through our website at the following address:

Arizona Public Service Company
Office of the Secretary
Station 9046
P.O. Box 53999
Phoenix, Arizona 85072-3999
(602) 250-3252
Or online at www.pinnaclewest.com

USE OF PROCEEDS

We will use the net proceeds from the sale of the notes to repay amounts of short-term borrowings under our two committed revolving credit facilities (with an aggregate principal amount outstanding of $631.7 million and estimated weighted average interest rate of 0.8821% as of February 20, 2009) incurred to fund capital expenditures and for general corporate purposes. The underwriters and/or their respective affiliates are lenders under these committed revolving credit facilities. Until we use the proceeds for these purposes, we will temporarily invest the proceeds in U.S. government or agency obligations, commercial paper, bank certificates of deposit, or repurchase agreements collateralized by U.S. government or agency obligations, institutional money market mutual funds, or other tax-exempt securities or deposit the proceeds with banks.

RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratio of our earnings to fixed charges for each of the indicated periods:

Year Ended December 31,				
2008	2007	2006	2005	2004
2.73	3.15	3.13	2.50	2.76

For the purposes of computing our ratios of earnings to fixed charges, earnings are divided by fixed charges. "Earnings" represent the aggregate of income (loss) from continuing operations before income taxes and fixed charges. "Fixed charges" represent interest expense, the amortization of debt discount and the interest portion of rentals.

DESCRIPTION OF THE NOTES

The notes will be issued as a separate series of debt securities under the indenture dated as of January 15, 1998, between us and The Bank of New York Mellon Trust Company, N.A., successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), as trustee. The following description of specific terms of the notes supplements the description of the general terms and provisions of the debt securities in the accompanying prospectus under "Description of APS Debt Securities." Because this is a summary, it does not contain all the information that may be important to you.

General

The specific financial and legal terms of the notes are set forth below:

- **Title:** % Notes due 20 .
- **Total principal amount being issued:** $.
- **Due date for principal:** , 20 .
- **Interest rate:** % per annum.
- **Date interest starts accruing:** , 2009.
- **Interest payment dates:** and of each year (including the date of maturity). In the event that any interest payment date is not a business day, then payment of interest will be made on the succeeding business day.
- **First interest payment date:** , 2009.
- **Regular record dates for interest payment dates:** for the interest payment date and for the interest payment date.
- **Computation of interest:** On the basis of a 360-day year of twelve 30-day months.
- **Form of notes:** The notes will be represented by one or more global securities in denominations of $1,000 and any integral multiples thereof. We will deposit each global security with or on behalf of DTC. See "Description of APS Debt Securities—Global Securities" in the accompanying prospectus. We may allow exchange of each global security for registered notes and transfer of each global security to a person other than DTC in additional circumstances that we agree to other than those described under that heading.

- **Sinking fund:** The notes will not be subject to any sinking fund.

The notes will constitute a separate series of our unsecured senior debt securities under the indenture relating to the notes. The notes will rank equally in right of payment with all of our existing and future senior unsecured debt and senior to all of our existing and future subordinated debt and will be effectively subordinated to any secured debt we may issue in the future to the extent of the value of the collateral. As of December 31, 2008, we had approximately $1.3 million of outstanding secured debt. The limitation on liens covenant described under "—Limitation on Liens" below will limit our ability to create liens on our operating property to secure indebtedness. However, this covenant is subject to a number of important exceptions and qualifications, including an exception permitting secured debt in an amount that does not exceed 10% of Tangible Assets (as defined therein), which, at December 31, 2008, was approximately $1.0 billion. The prospectus that accompanies this prospectus supplement further describes our debt securities under "Description of APS Debt Securities."

As of December 31, 2008, we had approximately $3.4 billion of senior debt outstanding, of which approximately $2.2 billion was outstanding under the indenture relating to the notes offered hereby.

Additional Notes

We may from time to time, without notice to, or the consent of, the then existing registered holders of the notes, create and issue additional notes equal in rank and having the same maturity, payment terms, redemption features, and other terms as the notes offered by this prospectus supplement, except for the issue date of the additional notes, the public offering price of the additional notes, the payment of interest accruing prior to the issue date of the additional notes and (under some circumstances) the first payment of interest following the issue date of the additional notes. These additional notes may be consolidated and form a single series with the notes offered by this prospectus supplement.

Optional Redemption

All or a portion of the notes may be redeemed at our option at any time or from time to time. The redemption price for the notes to be redeemed on any redemption date will be equal to the greater of the following amounts:

- 100% of the principal amount of the notes being redeemed on the redemption date; or
- the sum of the present values of the remaining scheduled payments of principal of and interest on the notes being redeemed on that redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis at the Adjusted Treasury Rate (as defined below), plus basis points, as determined by a Reference Treasury Dealer (as defined below) appointed by us for such purpose;

plus, in each case, accrued and unpaid interest on the notes being redeemed to the redemption date. Notwithstanding the foregoing, installments of interest on notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the notes and the related indenture. The redemption price will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If less than all of the notes will be redeemed, the trustee will select the particular notes to be redeemed by such method as the trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any note. However, the unredeemed portion of the principal amount of any note must be in an authorized denomination.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. However, we will not know the exact redemption price until three business days before the redemption date. Therefore, the notice of redemption will only describe how the redemption price will be calculated. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (as defined below) for such redemption date.

"Comparable Treasury Issue" means the U.S. Treasury security selected by a Reference Treasury Dealer appointed by us for such purpose as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) if we obtain three or more Reference Treasury Dealer Quotations (as defined below), the average of such Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, (B) if we obtain two such Reference Treasury Dealer Quotations, the average of such quotations, or (C) if only one Reference Treasury Dealer Quotation is received, such quotation.

"Primary Treasury Dealer" means a primary U.S. Government securities dealer in the United States.

"Reference Treasury Dealer" means (A) Barclays Capital Inc., BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC (or their respective affiliates that are Primary Treasury Dealers), and their respective successors; provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by us.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding such redemption date.

Defeasance

The provisions described in the accompanying prospectus under the caption "Description of APS Debt Securities—Defeasance and Covenant Defeasance" are applicable to the notes.

Limitation on Liens

So long as any of the notes are outstanding, we will not issue, assume, guarantee or permit to exist any Debt (as defined below) secured by any mortgage, security interest, pledge, or lien (a "Mortgage") of or upon any of our Operating Property (as defined below), whether owned at the date that the notes are issued or subsequently acquired, without effectively securing the notes (together with, if we so determine, any other indebtedness or obligations of us ranking senior to, or equally with, the notes) equally and ratably with such Debt (but only so long as that Debt is so secured). This restriction will not apply to Debt secured by any of the following:

(1) Mortgages on any property existing at the time of acquisition of such property (which Mortgages may also extend to subsequent repairs, alterations and improvements to that property);

(2) Mortgages on property of a corporation existing at the time such corporation is merged into or consolidated with us or at the time of a sale, lease, or other disposition of the properties of such corporation or a division thereof as an entirety or substantially as an entirety to us;

(3) Mortgages on property to secure all or part of the cost of acquiring, constructing, developing, or substantially repairing, altering, or improving such property or to secure indebtedness incurred to provide funds for any such purpose or for reimbursement of funds previously expended for any such purpose, provided such Mortgages are created or assumed contemporaneously with, or within eighteen (18) months after, such acquisition or completion of construction, development, or substantial repair, alteration, or improvement;

(4) Mortgages in favor of the United States of America or any State thereof, or any department, agency, instrumentality or political subdivision of the United States of America or any State thereof, or for the benefit of holders of securities issued by any such entity (or providers of credit enhancement with respect to those securities), to secure any Debt (including our obligations with respect to industrial development, pollution control or similar revenue bonds) incurred for the purpose of financing or refinancing all or any part of the purchase price or the cost of constructing, developing, or substantially repairing, altering, or improving our property;

(5) Mortgages to compensate the trustee as provided in the indenture relating to the notes; or

(6) any extension, renewal or replacement (or successive extensions, renewals, or replacements), in whole or in part, of any Mortgage referred to in the foregoing clauses (1) to (5), but the principal amount of Debt secured by such Mortgages and not otherwise authorized by said clauses (1) to (5) may not exceed the principal amount of Debt, plus any premium or fee payable in connection with any such extension, renewal, or replacement, so secured at the time of such extension, renewal, or replacement.

We may issue, assume, or guarantee or permit to exist Debt that is secured by Mortgages that would otherwise be subject to the restrictions that we describe above in connection with our existing sale and leaseback transactions relating to Unit 2 of the Palo Verde Nuclear Generating Station, including but not limited to Mortgages on the leased interests in Unit 2 of the Palo Verde Nuclear Generating Station and related rights if we reacquire ownership in any of those interests or acquire any of the equity or owner participants' interests in the trusts that hold title to such leased interests, whether or not we also directly assume the Sale Leaseback Obligation Bonds (as defined below), and Mortgages on our interests in the trusts that hold title to such leased interests and related rights in the event that we acquire any of the equity or owner participants' interests in such trusts pursuant to a "special transfer" under the Unit 2 sale and leaseback transactions. In addition, we may issue, assume, or guarantee or permit to exist Debt that is secured by Mortgages up to an aggregate principal amount that, together with the principal amount of all of our other Debt secured by Mortgages, does not at the time exceed ten percent (10%) of Tangible Assets (as defined below).

The following terms have the following meanings:

"Debt" means any of our outstanding debt for money borrowed evidenced by notes, debentures, bonds, or other securities, or guarantees of any thereof.

"Operating Property" means (i) any interest in real property owned by us and (ii) any asset owned by us that is depreciable in accordance with generally accepted accounting principles, excluding in any case any interest of us as lessee under any lease.

"Sale Leaseback Obligation Bonds" means PVNGS II Funding Corp.'s 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015, any other bonds issued in connection with the Unit 2 sale and leaseback transactions and any refinancing or refunding of any of these obligations.

"Tangible Assets" means the amount shown as total assets on our most recent balance sheet, less: (i) intangible assets, including, but without limitation, goodwill, trademarks, trade names, patents, and unamortized debt discount and expense and (ii) appropriate adjustments, if any, on account of minority interests. However, if, subsequent to the date of our most recent balance sheet, we acquire any property, whether by acquisition (including by way of capital lease) from a third party, through merger or consolidation, through construction, development, or substantial repair, alteration or improvement of property, or by any other means, and such property is or becomes subject to any Mortgage securing Debt, we may prepare a pro forma balance sheet to include the value of such property in any calculation of Tangible Assets hereunder. Subject to the foregoing, Tangible Assets will be determined in accordance with generally accepted accounting principles and practices applicable to the type of business in which we are engaged and that are approved by the independent accountants regularly retained by us, and may be determined as of a date not more than 60 days prior to the happening of the event for which such determination is being made.

Regarding the Trustee

The Bank of New York Mellon Trust Company, N.A., successor to JPMorgan Chase Bank, N.A., is the trustee under the indenture relating to the notes. It is also the trustee under certain indentures relating to the sale and leaseback transactions that we entered into in 1986 with respect to a portion of our interest in Unit 2 of the Palo Verde Nuclear Generating Station and certain related common facilities. Its affiliate, The Bank of New York Mellon, is the trustee under various other indentures covering securities issued or that may be issued by us or our affiliates or on our or their behalf and also acts as auction agent for certain of that debt. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York Mellon Trust Company, N.A. and its affiliates, including The Bank of New York Mellon serving as transfer agent and registrar for Pinnacle West's common stock. In the future, The Bank of New York Mellon Trust Company, N.A. and its affiliates may provide banking, investment and other services to us and our affiliates.

RATINGS

S&P has assigned the notes a rating of BBB-, Moody's has assigned the notes a rating of Baa2 and Fitch has assigned the notes a rating of BBB. Such ratings reflect only the views of such ratings agencies, and do not constitute a recommendation to buy, sell or hold securities. In general, ratings address credit risk. Each rating should be evaluated independently of any other rating. An explanation of the significance of such ratings may be obtained only from such rating agencies at the following addresses: Standard & Poor's, 25 Broadway, New York, New York 10004; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Fitch, Inc., One State Street Plaza, New York, New York 10004. The security rating may be subject to revision or withdrawal at any time by the assigning rating organization, and, accordingly, there can be no assurance that such ratings will remain in effect for any period of time or that they will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances warrant. Neither we nor the underwriters have undertaken any responsibility to oppose any proposed downward revision or withdrawal of a rating on the notes. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the notes.

UNDERWRITING

Barclays Capital Inc., BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC are acting as joint bookrunning managers and as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to severally purchase, and we have agreed to sell to that underwriter, the principal amount of notes set forth opposite the underwriter's name below:

Underwriters	Principal Amount of Notes
Barclays Capital Inc.	$
BNY Mellon Capital Markets, LLC	
Credit Suisse Securities (USA) LLC	
Total	$

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are several and not joint and are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

The underwriters propose to offer the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer the notes to dealers at the public offering price less a concession not to exceed % of the principal amount of the notes. The underwriters may allow, and dealers may reallow, a concession not to exceed % of the principal amount of the notes on sales to other dealers. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	Paid by Arizona Public Service Company
Per Note	%

The notes are a new issue of securities with no established trading market. We do not intend to apply for the notes to be listed on any securities exchange or to be quoted on any quotation system. One or more of the underwriters intend to make a secondary market for the notes. However, they are not obligated to do so and may discontinue making a secondary market at any time without notice. No assurance can be given as to how liquid the trading market for the notes will be.

In order to facilitate this offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in this offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of the notes made for the purpose of preventing or retarding a decline in the market price of the notes while this offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the managing underwriters, in covering syndicate short positions or making stabilizing purchases, repurchase notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Sales of the notes by BNY Mellon Capital Markets, LLC will be effected by Broadpoint Capital, Inc., as its distribution agent.

We estimate that our total expenses (excluding underwriting commissions) of this offering will be approximately $.

The underwriters and/or their affiliates have performed various investment banking, commercial banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses. The Bank of New York Mellon Trust Company, N.A., an affiliate of BNY Mellon Capital Markets, LLC, acts as trustee under the indenture relating to the notes. Affiliates of the underwriters are lenders to us under our committed revolving credit facilities and will receive a portion of the amount that will be repaid thereunder with the net proceeds of the sale of the notes. See "Use of Proceeds." Because more than 10% of the net proceeds of this offering may be paid to affiliates of members of the Financial Industry Regulatory Authority ("FINRA") who are participating in this offering, this offering is being conducted in compliance with Rule 5110(h) of the Conduct Rules of FINRA. The underwriters may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business.

A prospectus supplement in electronic format may be made available on the website maintained by one or more of the underwriters.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

EXPERTS

The financial statements of Arizona Public Service Company, the related financial statement schedule and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus supplement by reference from Arizona Public Service Company's Annual Report on Form 10-K, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

LEGAL OPINIONS

The validity of the notes offered hereby will be passed upon for Arizona Public Service Company by Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004. Certain legal matters with respect to the offering of the notes will be passed upon for the underwriters by Pillsbury Winthrop Shaw Pittman LLP, 1540 Broadway, New York, New York 10036. In giving its opinion, Snell & Wilmer L.L.P. may rely as to all matters under the Public Utility Holding Company Act of 2005, as amended, and the Federal Power Act, as amended, upon the opinion of Morgan, Lewis & Bockius LLP, 1111 Pennsylvania Avenue, NW, Washington, DC 20004 and as to all matters of New York law upon the opinion of Pillsbury Winthrop Shaw Pittman LLP. Pillsbury Winthrop Shaw Pittman LLP may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.

Prospectus

PINNACLE WEST CAPITAL CORPORATION

Debt Securities
Preferred Stock
Common Stock

ARIZONA PUBLIC SERVICE COMPANY

Debt Securities

We may offer and sell these securities from time to time in one or more offerings. This prospectus provides you with a general description of the securities we may offer.

Each time we sell these securities, we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the securities, including the plan of distribution for the securities. You should carefully read this prospectus and any supplement, as well as the documents incorporated by reference in this prospectus, before you invest in any of these securities.

See "Risk Factors" on page 3 of this prospectus to read about where we will describe certain factors you should consider in making an investment decision.

Our principal executive offices are located at 400 North Fifth Street, Phoenix, AZ 85004. Our telephone number is (602) 250-1000.

Pinnacle West's common stock is listed on the New York Stock Exchange under the symbol "PNW." Unless otherwise indicated in a supplement to this prospectus, the other securities offered hereby will not be listed on a national securities exchange or on the Nasdaq Stock Market.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

We may offer and sell these securities directly to purchasers, through agents, dealers, or underwriters as designated from time to time, or through a combination of these methods. If any agents, dealers or underwriters are involved in the sale of any securities, the relevant prospectus supplement will set forth any applicable commissions or discounts.

The date of this prospectus is June 28, 2006

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RISK FACTORS

We include a discussion of risk factors relating to our business and an investment in our securities in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q filed from time to time by us with the Securities and Exchange Commission (the "SEC"). These reports are incorporated by reference in this prospectus. See "Where You Can Find More Information." Additional risks related to our securities may be described in a prospectus supplement. Before purchasing our securities, you should carefully consider the risk factors we describe in those reports and in a prospectus supplement. Although we try to discuss key risks in those risk factor descriptions, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance.

ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement that we filed with the SEC. By using a shelf registration statement, we may sell, from time to time, in one or more offerings, any combination of the securities described in this prospectus. In this prospectus we may refer to the debt securities, preferred stock and common stock that may be offered by Pinnacle West Capital Corporation ("Pinnacle West") and the debt securities that may be offered by Arizona Public Service Company ("APS") collectively as the "securities."

This prospectus provides you with a general description of the securities we may offer. Each time we offer securities, we will provide you with a prospectus supplement and, if applicable, a pricing supplement. The prospectus supplement and any applicable pricing supplement will describe the specific terms of the securities being offered. The prospectus supplement and any applicable pricing supplement may also add to, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and in any supplement, you should rely on the information in the supplement. In addition, the registration statement we filed with the SEC includes exhibits that provide more details about the securities.

You should rely only on the information contained or incorporated by reference in this prospectus and any prospectus supplement. See "Where You Can Find More Information." We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this prospectus and any supplement to this prospectus is accurate only as of the dates on their covers and that information incorporated by reference is accurate only as of the date of the report that is incorporated, unless, in either case, the information is given as of another specific date. Our business, financial condition, results of operations, and prospects may have changed since those dates.

FORWARD-LOOKING STATEMENTS

This prospectus, any accompanying prospectus supplement, and the information contained or incorporated by reference in this prospectus may contain forward-looking statements based on current expectations, and we assume no obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. In addition to the Risk Factors described above, these factors include, but are not limited to:

- state and federal regulatory and legislative decisions and actions, including the outcome and timing of APS' retail rate proceedings pending before the Arizona Corporation Commission;
- the timely recovery of deferrals under APS' power supply adjustor;
- the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition;
- the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring;
- market prices for electricity and natural gas;
- power plant performance and outages;
- transmission outages and constraints;
- weather variations affecting local and regional customer energy usage;
- customer growth and energy usage;
- regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies;
- the cost of debt and equity capital and access to capital markets;
- current credit ratings remaining in effect for any given period of time;
- our ability to compete successfully outside traditional regulated markets (including the wholesale market);
- the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts);
- changes in accounting principles generally accepted in the United States of America and the interpretation of those principles;
- the performance of the stock market and the changing interest rate environment, which affect the amount of required contributions to Pinnacle West's pension plan and APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits;
- technological developments in the electric industry;
- the strength of the real estate market in the market areas of Pinnacle West's subsidiary, SunCor Development Company ("SunCor"), which include Arizona, Idaho, New Mexico and Utah; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

WHERE YOU CAN FIND MORE INFORMATION

Available Information

We file annual, quarterly, and current reports, and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site: *http://www.sec.gov*. You may also read and copy any document we file at the SEC's public reference room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. Reports and other information concerning Pinnacle West can also be inspected and copied at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. Our filings with the SEC are also available on our own web site at *http://www.pinnaclewest.com*. The other information on our web site is not part of this prospectus or any prospectus supplement.

Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 (SEC file No. 1-8962 for Pinnacle West and No. 1-4473 for APS) prior to the termination of this offering, excluding, in each case, information deemed furnished and not filed.

Pinnacle West Capital Corporation:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006;
- Current Reports on Form 8-K filed on January 5, 2006, January 9, 2006, January 10, 2006, January 26, 2006, February 1, 2006, February 3, 2006, February 24, 2006, March 2, 2006, March 7, 2006, March 27, 2006, April 21, 2006, April 24, 2006, May 3, 2006, May 4, 2006, May 19, 2006 and May 31, 2006; and
- The description of Pinnacle West's common stock contained in the registration statement on Form 8-B filed with the SEC on July 25, 1985, and any amendment or report which we have filed (or will file after the date of this prospectus and prior to the termination of this offering) for the purpose of updating such description, including Pinnacle West's Current Report on Form 8-K filed with the SEC on April 19, 1999 and Exhibit 4.1 to Pinnacle West's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.

Arizona Public Service Company:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006; and
- Current Reports on Form 8-K filed January 5, 2006, January 9, 2006, January 10, 2006, January 26, 2006, February 1, 2006, February 3, 2006, February 24, 2006, March 7, 2006, March 27, 2006, April 21, 2006, April 24, 2006, May 3, 2006, May 4, 2006 and May 31, 2006.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Pinnacle West Capital Corporation Office of the Secretary Station 9068 P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-3252	Arizona Public Service Company Office of the Secretary Station 9068 P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-3252

THE COMPANIES

Pinnacle West was incorporated in 1985 under the laws of the State of Arizona and owns all of the outstanding equity securities of APS, its major subsidiary. APS is a vertically-integrated electric utility that provides retail and wholesale electric service to most of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. Pinnacle West's other significant subsidiaries are SunCor, which is engaged in real estate development and investment activities, and APS Energy Services, which provides competitive energy services and products in the western United States.

The principal executive offices of Pinnacle West and APS are located at 400 North Fifth Street, Phoenix, Arizona 85004, and the telephone number is 602-250-1000.

USE OF PROCEEDS

Each of Pinnacle West and APS intends to use the proceeds from the sale of these securities for general corporate purposes, which may include the repayment of indebtedness, capital expenditures, the funding of working capital, and acquisitions, and in the case of Pinnacle West, for stock repurchases and/or capital infusions into one or more of its subsidiaries for any of those purposes. The specific use of proceeds from the sale of securities will be set forth in the prospectus supplement relating to each offering of these securities.

GENERAL DESCRIPTION OF THE SECURITIES

Pinnacle West, directly or through agents, dealers or underwriters that it designates, may offer and sell, from time to time, an indeterminate amount of:

- its debt securities, in one or more series, which may be senior debt securities or subordinated debt securities, in each case consisting of notes or other unsecured evidences of indebtedness;
- shares of its preferred stock;
- shares of its common stock; or
- any combination of these securities.

APS, directly or through agents, dealers or underwriters that it designates, may offer and sell, from time to time, an indeterminate amount of its debt securities, in one or more series, which may be senior debt securities or subordinated debt securities, in each case consisting of notes or other unsecured evidences of indebtedness.

Pinnacle West and APS may offer and sell these securities either individually or as units consisting of one or more of these securities, each on terms to be determined at the time of sale. Pinnacle West may issue debt securities and/or shares of preferred stock that are exchangeable for and/or convertible into common stock or any of the other securities that it may sell under this prospectus. When particular securities are offered, a supplement to this prospectus will be delivered with this prospectus, which will describe the terms of the offering and sale of the offered securities.

DESCRIPTION OF PINNACLE WEST DEBT SECURITIES

General

The following description highlights the general terms of the debt securities that may be offered by Pinnacle West. When we use the terms "we," "us," "our," and like terms in this description, we are referring to Pinnacle West. When we offer debt securities in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which any of these general provisions will not apply.

We can issue an unlimited amount of debt securities under the indentures listed below. We can issue debt securities from time to time and in one or more series as determined by us. In addition, we can issue debt securities of any series with terms different from the terms of debt securities of any other series and the terms of particular debt securities within any series may differ from each other, all without the consent of the holders of previously issued series of debt securities. From time to time, without notice to, or the consent of, the existing holders of any series of debt securities then outstanding, we may create and issue additional debt securities equal in rank and having the same maturity, payment terms, redemption features, and other terms as the debt securities of such series, except for payment of interest accruing prior to the issue date of the additional debt securities and (under some circumstances) for the first payment of interest following the issue date of the additional debt securities. The additional debt securities may be consolidated and form a single series with previously issued debt securities of the affected series.

The debt securities of each series will be our direct, unsecured obligations. The debt securities may be issued in one or more new series under:

- an Indenture, dated as of December 1, 2000, between The Bank of New York and us, as amended from time to time, in the case of senior debt securities; or
- an Indenture, dated as of December 1, 2000, as amended from time to time, between The Bank of New York and us, in the case of subordinated debt securities.

Because we are structured as a holding company, all existing and future indebtedness and other liabilities of our subsidiaries will be effectively senior in right of payment to our debt securities, whether senior debt securities or subordinated debt securities. Neither of the above Indentures limits our ability or the ability of our subsidiaries to incur additional indebtedness in the future. The assets and cash flows of our subsidiaries will be available, in the first instance, to service their own debt and other obligations and our ability to have the benefit of their assets and cash flows, particularly in the case of any insolvency or financial distress affecting our subsidiaries, would arise only through our equity ownership interests in our subsidiaries and only after their creditors had been satisfied.

We have summarized the material provisions of the Indentures below. We have filed the senior and subordinated Indentures as exhibits to the registration statement. You should read the Indentures in their entirety, including the definitions of certain terms, together with this prospectus and the prospectus supplement before you make any investment decision. Although separate Indentures are used for subordinated debt securities and senior debt securities, references to the "Indenture" and the description of the "Indenture" in this section apply to both Indentures, unless otherwise noted.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of debt securities:

- title of the debt securities;
- the aggregate principal amount of the debt securities or the series of which they are a part;
- the date on which the debt securities mature;
- the interest rate;
- when the interest on the debt securities accrues and is payable;
- the record dates for the payment of interest;
- places where principal, premium, or interest will be payable;
- periods within which, and prices at which, we can redeem debt securities at our option;
- any obligation on our part to redeem or purchase debt securities pursuant to a sinking fund or at the option of the holder;
- denominations and multiples at which debt securities will be issued if other than $1,000;
- any index or formula from which the amount of principal or any premium or interest may be determined;
- any allowance for alternative currencies and determination of value;
- whether the debt securities are defeasible under the terms of the Indenture;
- whether we are issuing the debt securities as global securities;
- any additional or different events of default and any change in the right of the trustee or the holders to declare the principal amount due and payable if there is any default;
- any addition to or change in the covenants in the Indenture; and
- any other terms.

We may sell the debt securities at a substantial discount below their principal amount. The prospectus supplement may describe special federal income tax considerations that apply to debt securities sold at an original issue discount or to debt securities that are denominated in a currency other than United States dollars.

Unless the applicable prospectus supplement specifies otherwise, the debt securities will not be listed on any securities exchange.

Other than the protections described in this prospectus and in the prospectus supplement, holders of debt securities would not be protected by the covenants in the Indenture from a highly-leveraged transaction.

Subordination

The Indenture relating to the subordinated debt securities states that, unless otherwise provided in a supplemental indenture or a board resolution, the debt securities will be subordinate to all senior debt. This is true whether the senior debt is outstanding as of the date of the Indenture or is incurred afterwards. The balance of the information under this heading assumes that a supplemental indenture or a board resolution results in a series of debt securities being subordinated obligations.

The Indenture states that we cannot make payments of principal, premium, or interest on the subordinated debt if:

- the principal, premium or interest on senior debt is not paid when due and the applicable grace period for the default has ended and the default has not been cured or waived; or
- the maturity of any senior debt has been accelerated because of a default.

The Indenture provides that we must pay all senior debt in full before the holders of the subordinated debt securities may receive or retain any payment if our assets are distributed to our creditors upon any of the following:

- dissolution;
- winding-up;
- liquidation;
- reorganization, whether voluntary or involuntary;
- bankruptcy;
- insolvency;
- receivership; or
- any other proceedings.

The Indenture provides that when all amounts owing on the senior debt are paid in full, the holders of the subordinated debt securities will be subrogated to the rights of the holders of senior debt to receive payments or distributions applicable to senior debt.

The Indenture defines senior debt as the principal, premium, interest and any other payment due under any of the following, whether outstanding at the date of the Indenture or thereafter incurred, created or assumed:

- all of our debt evidenced by notes, debentures, bonds, or other securities we sell for money;
- all debt of others of the kinds described in the preceding bullet point that we assume or guarantee in any manner; and
- all renewals, extensions, or refundings of debt of the kinds described in either of the two preceding bullet points.

However, the preceding will not be considered senior debt if the document creating the debt or the assumption or guarantee of the debt states that it is not superior to or that it is on equal footing with the subordinated debt securities.

The Indenture does not limit the aggregate amount of senior debt that we may issue.

Form, Exchange, and Transfer

Each series of debt securities will be issuable only in fully registered form and without coupons. In addition, unless otherwise specified in a prospectus supplement, the debt securities will be issued in denominations of $1,000 and multiples of $1,000. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

The holders of debt securities may exchange them for any other debt securities of the same series, in authorized denominations and equal principal amount. However, this type of exchange will be subject to the terms of the Indenture and any limitations that apply to global securities.

A holder may transfer debt securities by presenting the endorsed security at the office of a security registrar or at the office of any transfer agent we designate. The holder will not be charged for any exchange or registration of transfer, but we may require payment to cover any tax or other governmental charge in connection with the transaction. We have appointed the trustee under each Indenture as security registrar. A prospectus supplement will name any transfer agent we designate for any debt securities if different from the security registrar. We may designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts at any time, except that we will maintain a transfer agent in each place of payment for debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to do any of the following:

- issue, register the transfer of, or exchange any debt securities of that series and/or tenor beginning 15 days before the day of mailing of a notice of redemption of any debt security that may be selected for redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security selected for redemption, except for an unredeemed portion of a debt security that is being redeemed in part.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, we will pay interest on a debt security on any interest payment date to the person in whose name the debt security is registered.

Unless otherwise indicated in the applicable prospectus supplement, the principal, premium, and interest on the debt securities of a particular series will be payable at the office of the paying agents that we may designate. However, we may pay any interest by check mailed to the address, as it appears in the security register, of the person entitled to that interest. Also, unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the trustee in The City of New York will be our sole paying agent for payments with respect to debt securities of each series. Any other paying agent that we initially designate for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money that we pay to a paying agent for the payment of the principal, premium, or interest on any debt security that remains unclaimed at the end of two years after the principal, premium, or interest has become due and payable will be repaid to us, and the holder of the debt security may look only to us for payment.

Consolidation, Merger, and Sale of Assets

Unless otherwise indicated in the applicable prospectus supplement, we may not:

- consolidate with or merge into any other entity;
- convey, transfer, or lease our properties and assets substantially as an entirety to any entity; or
- permit any entity to consolidate with or merge into us or convey, transfer, or lease its properties and assets substantially as an entirety to us,

unless the following conditions are met:

- the successor entity is a corporation, partnership, unincorporated organization or trust, organized and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the debt securities and under the Indenture;

- immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have occurred and be continuing; and
- other conditions are met.

Upon any such merger, consolidation, or transfer or lease of properties, the successor person will be substituted for us under the Indenture, and, thereafter, except in the case of a lease, we will be relieved of all obligations and covenants under the Indenture and the debt securities.

Events of Default

Each of the following will be an event of default under the Indenture with respect to debt securities of any series:

- our failure to pay principal of or any premium on any debt security of that series when due;
- our failure to pay any interest on any debt securities of that series when due, and the continuance of that failure for 30 days;
- our failure to deposit any sinking fund payment, when due, in respect of any debt securities of that series;
- our failure to perform any of our other covenants in the Indenture relating to that series and the continuance of that failure for 90 days after written notice has been given by the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series;
- bankruptcy, insolvency, or reorganization events involving us; and
- any other event of default for that series described in the applicable prospectus supplement.

If an event of default occurs and is continuing, other than an event of default relating to bankruptcy, insolvency, or reorganization, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may declare the principal amount of the debt securities of that series to be due and payable immediately. In the case of any debt security that is an original issue discount security or the principal amount of which is not then determinable, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the portion of the principal amount of the debt security specified in the terms of such debt security to be immediately due and payable upon an event of default.

If an event of default involving bankruptcy, insolvency, or reorganization occurs, the principal amount of all the debt securities of the affected series will automatically, and without any action by the trustee or any holder, become immediately due and payable. After any acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered the trustee reasonable indemnity. Subject to provisions for the indemnification of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

No holder of a debt security of any series will have any right to institute any proceeding under the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture, unless:

- the holder has previously given the trustee written notice of a continuing event of default with respect to the debt securities of that series;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and the holder or holders have offered reasonable indemnity, to the trustee to institute the proceeding as trustee; and
- the trustee has failed to institute the proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with the request within 60 days after the notice, request, and offer of indemnity.

The limitations provided above do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal, premium, or interest on the debt security on or after the applicable due date.

We are required to furnish to the trustee annually a certificate of various officers stating whether or not we are in default in the performance or observance of any of the terms, provisions, and conditions of the Indenture and, if so, specifying all known defaults.

Modification and Waiver

In limited cases, we and the trustee may make modifications and amendments to the Indenture without the consent of the holders of any series of debt securities. We and the trustee may also make modifications and amendments to the Indenture with the consent of the holders of not less than 66⅔% in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, without the consent of the holder of each outstanding debt security affected, no modification or amendment may:

- reduce the principal amount of, or any premium or interest on, any debt security;
- reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity of the security;
- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
- change the place or currency of payment of principal of, or any premium or interest on, any debt security;
- impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or
- reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture or is necessary for waiver of compliance with certain provisions of the Indenture or of certain defaults, or modify the provisions of the Indenture relating to modification and waiver.

In general, compliance with certain restrictive provisions of the Indenture may be waived by the holders of not less than 66⅔% in aggregate principal amount of the outstanding debt securities of any series. The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except:

- a default in the payment of principal, premium, or interest; and
- a default under covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of the affected series.

In determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver, or other action under the Indenture as of any date:

- the principal amount of an outstanding original issue discount security will be the amount of the principal that would be due and payable upon acceleration of the maturity on that date,
- if the principal amount payable at the stated maturity of a debt security is not determinable, the principal amount of the outstanding debt security will be an amount determined in the manner prescribed for the debt security; and
- the principal amount of an outstanding debt security denominated in one or more foreign currencies will be the U.S. dollar equivalent of the principal amount of the debt security or, in the case of a debt security described in the previous bullet point above, the amount described in that bullet point.

If debt securities have been fully defeased or if we have deposited money with the trustee to redeem debt securities, they will not be considered outstanding.

Except in limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or any other shorter period that we may specify. The period may be shortened or lengthened, but not beyond 180 days.

Defeasance and Covenant Defeasance

We may elect to have the provisions of the Indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series. The prospectus supplement used in connection with the offering of any debt securities will state whether we can make these elections for that series.

Defeasance and Discharge

We will be discharged from all of our obligations with respect to the debt securities of a series if we deposit with the trustee money in an amount sufficient to pay the principal, premium, and interest on the debt securities of that series when due in accordance with the terms of the Indenture and the debt securities. We can also deposit securities that will provide the necessary monies. However, we will not be discharged from the obligations to exchange or register the transfer of debt securities, to replace stolen, lost, or mutilated debt securities, to maintain paying agencies, and to hold moneys for payment in trust. The defeasance or discharge may occur only if we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities:

- will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge; and
- will be subject to federal income tax on the same amount, in the same manner, and at the same times as would have been the case if the deposit, defeasance, and discharge were not to occur.

Defeasance of Covenants

We may elect to omit compliance with restrictive covenants in the Indenture and any additional covenants that may be described in the applicable prospectus supplement for a series of debt securities. This election will preclude some actions from being considered defaults under the Indenture for the applicable series. In order to exercise this option, we will be required to deposit, in trust for the benefit of the holders of debt securities, funds in an amount sufficient to pay the principal, premium and interest on the debt securities of the applicable series. We may also deposit securities that will provide the necessary monies. We will also be required to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance were not to occur. If we exercise this option with respect to any debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of funds deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on the debt securities on any acceleration resulting from an event of default. In that case, we would remain liable for the additional payments.

Governing Law

The law of the State of New York will govern the Indenture and the debt securities.

Global Securities

Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities, which will have an aggregate principal amount equal to that of the debt securities they represent. We will register each global security in the name of a depositary or nominee identified in a prospectus supplement and deposit the global security with the depositary or nominee. Each global security will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below and other matters specified in a supplemental indenture to the Indenture.

No global security may be exchanged for debt securities registered, and no transfer of a global security may be registered, in the name of any person other than the depositary for the global security or any nominee of the depositary, unless:

- the depositary has notified us that it is unwilling or unable to continue as depositary for the global security or has ceased to be qualified to act as depositary;
- a default has occurred and is continuing with respect to the debt securities represented by the global security; or
- any other circumstances exist that may be described in the applicable supplemental indenture and prospectus supplement.

We will register all securities issued in exchange for a global security or any portion of a global security in the names specified by the depositary.

As long as the depositary or its nominee is the registered holder of a global security, the depositary or nominee will be considered the sole owner and holder of the global security and the debt securities that it represents. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

- be entitled to have the global security or debt securities registered in their names;
- receive or be entitled to receive physical delivery of certificated debt securities in exchange for a global security; and
- be considered to be the owners or holders of the global security or any debt securities for any purpose under the Indenture.

We will make all payments of principal, premium, and interest on a global security to the depositary or its nominee. The laws of some jurisdictions require that purchasers of securities take physical delivery of securities in definitive form. These laws make it difficult to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depositary or its nominee, referred to as Participants, and to persons that may hold beneficial interests through Participants. In connection with the issuance of any global security, the depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its Participants. Ownership of beneficial interests in a global security will only be shown on records maintained by the depositary or the Participant. Likewise, the transfer of ownership interests will be effected only through the same records. Payments, transfers, exchanges, and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depositary from time to time. Neither we, the trustee, nor any of our agents will have responsibility or liability for any aspect of the depositary's or any Participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising, or reviewing any records relating to the beneficial interests.

Regarding the Trustee

The Bank of New York is the trustee under our Indentures relating to the senior debt securities and the subordinated debt securities. It is also trustee of our pension plan and under various indentures covering securities issued by APS or on APS' behalf. The Bank of New York also acts as transfer agent for our common stock. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York. In the future The Bank of New York and its affiliates may provide banking, investment and other services to us and our affiliates.

DESCRIPTION OF PINNACLE WEST PREFERRED STOCK

Pinnacle West may issue, from time to time, shares of one or more series of its preferred stock. When we use the terms "we," "us," "our," and like terms in this description, we are referring to Pinnacle West. The following description sets forth certain general terms and provisions of the preferred stock to which any prospectus supplement may relate. The particular terms of any series of preferred stock and the extent, if any, to which these general provisions may apply to the series of preferred stock offered will be described in the prospectus supplement relating to that preferred stock.

The following summary of provisions of the preferred stock does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of our articles of incorporation, bylaws, and the amendment to our articles relating to a specific series of the preferred stock (the "statement of preferred stock designations"), which will be in the form filed as an exhibit to, or incorporated by reference in, the registration statement of which this prospectus is a part. Before investing in any series of our preferred stock, you should read our articles, bylaws and the relevant statement of preferred stock designations.

General

Under our articles of incorporation, we have the authority to issue up to 10,000,000 shares of preferred stock. As of June 28, 2006, no shares of preferred stock were outstanding. 4,400,000 shares of preferred stock are reserved for issuance under our shareholders rights plan. See "Description of Pinnacle West Common Stock—Certain Anti-takeover Effects—Shareholder Rights Plan." Our Board of Directors is authorized to issue shares of preferred stock, in one or more series, and to fix for each series voting powers and those preferences and relative, participating, optional or other special rights and those qualifications, limitations or restrictions as are permitted by the Arizona Business Corporation Act (the "ABCA"). For a description of provisions in our articles and bylaws or under Arizona law that could delay, defer or prevent a change in control, see "Description of Pinnacle West Common Stock—Certain Anti-takeover Effects."

Our Board of Directors is authorized to determine the terms for each series of preferred stock, and the prospectus supplement will describe the terms of any series of preferred stock being offered, including:

- the designation of the shares and the number of shares that constitute the series;
- the dividend rate (or the method of calculation thereof), if any, on the shares of the series and the priority as to payment of dividends with respect to other classes or series of our capital stock;
- the dividend periods (or the method of calculation thereof);
- the voting rights of the shares;
- the liquidation preference and the priority as to payment of the liquidation preference with respect to other classes or series of our capital stock and any other rights of the shares of the series upon our liquidation or winding-up;
- whether and on what terms the shares of the series will be subject to redemption or repurchase at our option or at the option of the holders thereof;
- whether and on what terms the shares of the series will be convertible into or exchangeable for other securities;
- whether the shares of the series of preferred stock will be listed on a securities exchange;
- any special United States federal income tax considerations applicable to the series; and
- the other rights and privileges and any qualifications, limitations or restrictions of the rights or privileges of the series.

Dividends

Holders of shares of preferred stock shall be entitled to receive, when and as declared by our Board of Directors out of our funds legally available therefor, a cash dividend payable at the dates and at the rates, if any, per share as set forth in the applicable prospectus supplement.

Convertibility

No series of preferred stock will be convertible into, or exchangeable for, other securities or property except as set forth in the applicable prospectus supplement.

Redemption and Sinking Fund

No series of preferred stock will be redeemable or receive the benefit of a sinking fund except as set forth in the applicable prospectus supplement.

Liquidation Rights

Unless otherwise set forth in the applicable prospectus supplement, in the event of our liquidation, dissolution or winding up, the holders of shares of each series of preferred stock are entitled to receive distributions out of our assets available for distribution to shareholders, before any distribution of assets is made to holders of (i) any other shares of preferred stock ranking junior to that series of preferred stock as to rights upon liquidation and (ii) shares of common stock. The amount of liquidating distributions received by holders of preferred stock will generally equal the liquidation preference specified in the applicable prospectus supplement for that series of preferred stock, plus any dividends accrued and accumulated but unpaid to the date of final distribution. The holders of each series of preferred stock will not be entitled to receive the liquidating distribution of, plus such dividends on, those shares until the liquidation preference of any shares of our capital stock ranking senior to that series of the preferred stock as to the rights upon liquidation shall have been paid or set aside for payment in full.

If upon our liquidation, dissolution or winding up, the amounts payable with respect to the preferred stock, and any other preferred stock ranking as to any distribution on a parity with the preferred stock are not paid in full, then the holders of the preferred stock and the other parity preferred stock will share ratably in any distribution of assets in proportion to the full respective preferential amount to which they are entitled. Unless otherwise specified in a prospectus supplement for a series of preferred stock, after payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of preferred stock will not be entitled to any further participation in any distribution of our assets. Neither a consolidation or merger of us with another corporation nor a sale of securities shall be considered a liquidation, dissolution or winding up of us.

Voting Rights

The holders of each series of preferred stock we may issue will have no voting rights, except as required by law and as described below or in the applicable prospectus supplement. Our Board of Directors may, upon issuance of a series of preferred stock, grant voting rights to the holders of that series, including rights to elect additional board members if we fail to pay dividends in a timely fashion.

Arizona law provides for certain voting rights for holders of a class of stock, even if the stock does not have other voting rights. Thus, the holders of all shares of a class, would be entitled to vote on any amendment to our articles of incorporation that would:

- increase or decrease the aggregate number of authorized shares of the class;
- effect an exchange or reclassification of all or part of the shares of the class into shares of another class;
- effect an exchange or reclassification, or create the right of exchange of all or part of the shares of another class into shares of the class;
- change the designations, rights, obligations, preferences, or limitations of all or part of the shares of the class;
- change the shares of all or part of the class into a different number of shares of the same class;
- create a new class of shares having rights or preferences with respect to distributions or to dissolution that are prior, superior or substantially equal to the shares of the class;
- increase rights, preferences or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions or to dissolution that are prior, superior or substantially equal to the shares of the class;
- limit or deny an existing preemptive right of all or part of the class; and
- cancel or otherwise affect rights to distributions or dividends that have accumulated but have not yet been declared on all or part of the shares of the class.

If the proposed amendment would affect a series of the class, but not the entire class, in one or more of the ways described in the bullets above, then the shares of the affected series will have the right to vote on the amendment as a separate voting group. However, if a proposed amendment that would entitle two or more series of the class to vote as separate voting groups would affect those series in the same or a substantially similar way, the shares of all the series so affected must vote together as a single voting group on the proposed amendment.

Unless the articles of incorporation, Arizona law or the Board of Directors would require a greater vote or unless the articles or Arizona law would require a different quorum, if an amendment to the articles would allow the preferred stock or one or more series of the preferred stock to vote as voting groups, the vote required by each voting group would be:

- a majority of the votes entitled to be cast by the voting group, if the amendment would create dissenters' rights for that voting group; and
- in any other case, if a quorum is present in person or by proxy consisting of a majority of the votes entitled to be cast on the matter by the voting group, the votes cast by the voting group in favor of the amendment must exceed the votes cast against the amendment by the voting group.

Arizona law may also require that the preferred stock be entitled to vote on certain other extraordinary transactions.

Miscellaneous

The holders of our preferred stock will have no preemptive rights. All shares of preferred stock being offered by the applicable prospectus supplement will be fully paid and not liable to further calls or assessment by us. If we should redeem or otherwise reacquire shares of our preferred stock, then these shares will resume the status of authorized and unissued shares of preferred stock undesignated as to series, and will be available for subsequent issuance. There are no restrictions on repurchase or redemption of the preferred stock while there is any arrearage on sinking fund installments except as may be set forth in an applicable prospectus supplement. Payment of dividends on any series of preferred stock may be restricted by loan agreements, indentures and other transactions entered into by us. Any material contractual restrictions on dividend payments that exist at the time of the offer of any preferred stock will be described or incorporated by reference in the applicable prospectus supplement.

When we offer to sell a series of preferred stock, we will describe the specific terms of the series in the applicable prospectus supplement. If any particular terms of a series of preferred stock described in a prospectus supplement differ from any of the terms described in this prospectus, then the terms described in the applicable prospectus supplement will be deemed to supersede the terms described in this prospectus.

No Other Rights

The shares of a series of preferred stock will not have any preferences, voting powers or relative, participating, optional or other special rights except as set forth above or in the applicable prospectus supplement, our articles of incorporation or the applicable statement of preferred stock designations or as otherwise required by law.

Transfer Agent and Registrar

The transfer agent and registrar for each series of preferred stock will be designated in the applicable prospectus supplement.

DESCRIPTION OF PINNACLE WEST COMMON STOCK

Pinnacle West may issue, from time to time, shares of its common stock, the general terms and provisions of which are summarized below. When we use the terms "we," "us," "our," and like terms in this description, we are referring to Pinnacle West. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the provisions of our articles of incorporation, bylaws and the applicable prospectus supplement.

Authorized Shares

Under our articles of incorporation, we have the authority to issue 150,000,000 shares of common stock.

Dividends

Subject to any preferential rights of any series of preferred stock, holders of shares of common stock will be entitled to receive dividends on the stock out of assets legally available for distribution when, as and if authorized and declared by our Board of Directors. The payment of dividends on the common stock will be a business decision to be made by our Board of Directors from time to time based upon results of our operations and our financial condition and any other factors as our Board of Directors considers relevant. Payment of dividends on the common stock may be restricted by loan agreements, indentures and other transactions entered into by us from time to time. Any material contractual restrictions on dividend payments that exist at the time of the offer of any common stock will be described in the applicable prospectus supplement.

Voting Rights

Holders of common stock are entitled to one vote per share on all matters voted on generally by the shareholders, including the election of directors, and, except as otherwise required by law or except as provided with respect to any series of preferred stock, the holders of the shares possess all voting power.

Arizona law provides for cumulative voting for the election of directors. As a result, any shareholder may cumulate his or her votes by casting them all for any one director nominee or by distributing them among two or more nominees.

Staggered Terms of Directors

Our Board of Directors is elected in three classes with staggered three-year terms. One class of directors is elected each year for a three-year term. Election of directors with staggered terms lessens the effectiveness of cumulative voting rights by reducing the number of directors who are elected in any given year.

Liquidation Rights

Subject to any preferential rights of any series of preferred stock, holders of shares of common stock are entitled to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up.

Absence of Other Rights

Holders of our common stock have no preferential, preemptive, conversion or exchange rights.

Miscellaneous

All shares of common stock being offered by the applicable prospectus supplement will be fully paid and not liable to further calls or assessment by us.

Transfer Agent and Registrar

The Bank of New York is the principal transfer agent and registrar for the common stock.

Preferred Stock

Our Board of Directors has the authority, without any further action by our shareholders, to issue from time to time shares of preferred stock, in one or more series and to fix the designations, preferences, rights, qualifications, limitations and restrictions thereof, including voting rights, dividend rights, dividend rates, conversion rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series. The issuance of preferred stock with voting rights could have an adverse effect on the voting power of holders of common stock by increasing the number of outstanding shares having voting rights. In addition, if our board of directors authorizes preferred stock with conversion rights, the number of shares of common stock outstanding could potentially be increased up to the authorized amount. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock. Any such issuance could also have the effect of delaying, deterring or preventing a change in control of us and may adversely affect the rights of holders of our common stock. See also "Description of Pinnacle West Preferred Stock" above.

Certain Anti-takeover Effects

General. Certain provisions of our articles of incorporation, bylaws, and the Arizona Revised Statutes ("ARS"), as well as our shareholder rights plan, may have an anti-takeover effect and may delay or prevent a tender offer or other acquisition transaction that a shareholder might consider to be in his or her best interest, including a transaction that results in a premium over the market price of the common stock. The summary of the provisions of our articles, bylaws, shareholder rights plan, and the ARS set forth below does not purport to be complete and is qualified in its entirety by reference to our articles, bylaws, shareholder rights plan, and the ARS.

Business Combinations. ARS § 10-2741 through 2743 and Article XII of our bylaws restrict a wide range of transactions (collectively, "business combinations") between us or, in certain cases, one of our subsidiaries, and an interested shareholder (or any affiliate or associate of the interested shareholder). An "interested shareholder" is, generally, any person who beneficially owns, directly or indirectly, 10% or more of our outstanding voting power or any of our affiliates or associates who at any time within the prior three years was such a beneficial owner. The statute broadly defines "business combinations" to include, among other things and with certain exceptions:

- mergers and consolidations with an interested shareholder or an affiliate or associate of the interested shareholder;
- share exchanges with an interested shareholder or an affiliate or associate of the interested shareholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets to an interested shareholder or an affiliate or associate of the interested shareholder, representing 10% or more of (i) the aggregate market value of all of our consolidated assets as of the end of the most recent fiscal quarter, (ii) the aggregate market value of all our outstanding shares, or (iii) our consolidated revenues or net income for the four most recent fiscal quarters;
- the issuance or transfer of shares of stock having an aggregate market value of 5% or more of the aggregate market value of all of our outstanding shares to an interested shareholder or an affiliate or associate of the interested shareholder;
- the adoption of a plan or proposal for our liquidation or dissolution or reincorporation in another state or jurisdiction pursuant to an agreement or arrangement with an interested shareholder or an affiliate or associate of the interested shareholder;
- corporate actions, such as stock splits and stock dividends, and other transactions resulting in an increase in the proportionate share of the outstanding shares of any series or class of stock of us or any of our subsidiaries owned by an interested shareholder or an affiliate or associate of the interested shareholder; and
- the receipt by an interested shareholder or an affiliate or associate of the interested shareholder of the benefit (other than proportionately as a shareholder) of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by or through us or any of our subsidiaries.

The ARS and our bylaws provide that, subject to certain exceptions, we may not engage in a business combination with an interested shareholder (or any affiliate or associate of the interested shareholder) or authorize one of our subsidiaries to do so, for a period of three years after the date on which the interested shareholder first acquired the shares that qualify such person as an interested shareholder (the "share acquisition date"), unless either the business combination or the interested shareholder's acquisition of shares on the share acquisition date is approved by a committee of our Board of Directors (comprised solely of disinterested directors or other disinterested persons) prior to the interested shareholder's share acquisition date.

In addition, after such three-year period, the ARS and our bylaws prohibit us from engaging in any business combination with an interested shareholder (or any affiliate or associate of the interested shareholder), subject to certain exceptions, unless:

- the business combination or acquisition of shares by the interested shareholder on the share acquisition date was approved by our Board of Directors prior to the share acquisition date;
- the business combination is approved by holders of a majority of our outstanding shares (excluding shares beneficially owned by the interested shareholder or any affiliate or associate of the interested shareholder) at a meeting called after such three-year period; or

- the business combination satisfies specified price and other requirements.

Anti-Greenmail Provisions. ARS § 10-2704 and Article XIII of our bylaws prohibit us from purchasing any shares of our voting stock from any beneficial owner (or group of beneficial owners acting together to acquire, own or vote our shares) of more than 5% of the voting power of our outstanding shares at a price per share in excess of the average closing sale price during the 30 trading days preceding the purchase or if the person or persons have commenced a tender offer or announced an intention to seek control of us, during the 30 trading days prior to the commencement of the tender offer or the making of the announcement, unless

- the 5% beneficial owner has beneficially owned the shares to be purchased for a period of at least three years;
- holders of a majority of our voting power (excluding shares held by the 5% beneficial owner or its affiliates or associates or by any of our officers and directors) approve the purchase; or
- we make the repurchase offer available to all holders of the class or series of securities to be purchased and to all holders of other securities convertible into that class or series.

Control Share Acquisition Statute. Through a provision in our bylaws, we have opted out of ARS § 10-2721 through 2727, the Arizona statutory provisions regulating control share acquisitions. As a result, potential acquirors are not subject to the limitations imposed by that statute.

Shareholder Rights Plan. We have adopted a shareholder rights plan under which one preferred share purchase right is attached to each outstanding share of our common stock. The rights become exercisable and will be separated from the common stock on the Distribution Date, as such term is defined in the plan. Generally, subject to specified exceptions, the Distribution Date will occur on the earlier of:

- 10 days following a public announcement that a person or group of affiliated or associated persons (an "acquiring person") has acquired beneficial ownership of 15% or more of our outstanding common stock, or
- 10 business days following the commencement of, or announcement of an intention to make, a tender offer or exchange offer that would result in the beneficial ownership by a person or group of 15% or more of our outstanding common stock.

Each right entitles the registered holder to purchase from us one one-hundredth of a share of Series A Participating Preferred Stock (the "Series A Preferred Stock") at an exercise price of $130, subject to adjustment under specified circumstances. However, after any person has become an acquiring person (a "Flip-In Event"), upon exercise of the right, the holder will be entitled to receive common stock valued at twice the exercise price of the right. In other words, a rights holder may purchase common stock at a 50% discount. In some circumstances, the holder will receive cash, property or other securities instead of common stock. Upon the occurrence of a Flip-In Event, any rights owned by an acquiring person, its affiliates and associates and certain of its transferees will become null and void.

In the event that a person becomes an acquiring person, we are then merged, and the common stock is exchanged or converted in the merger, then each right (other than those formerly held by the acquiring person, which became void) would "flip-over" and be exercisable for a number of shares of common stock of the acquiring company having a market value of two times the exercise price of the right. In other words, a rights holder may purchase the acquiring company's common stock at a 50% discount.

After a Flip-In Event but before a "flip-over" event (as described above) occurs and before an acquiring person becomes the owner of 50% or more of the common stock, the Board may cause the rights (either in whole or in part) to be exchanged for shares of common stock (or fractional interests in Series A Preferred Stock, or equivalent securities, of equal value) at a one-to-one exchange ratio. Rights held by the acquiring person, however, which became void upon the Flip-In Event, would not be entitled to participate in such exchange.

We may redeem the rights for $0.01 per right at any time prior to the date on which a person becomes an acquiring person. The shareholder rights plan and the rights expire in March 2009, subject to extension.

For so long as the rights are redeemable, the terms of the rights may be amended or supplemented by the Board of Directors at any time and from time to time without the consent of the holders of the rights. At any time when the rights are not redeemable, the Board of Directors may amend or supplement the terms of the rights, provided that such amendment does not adversely affect the interests of the holders of the rights. In no event may any amendment or supplement be made which changes the redemption price.

Until a right is exercised, the holder thereof will have no rights as a shareholder, including, without limitation, the right to vote or to receive dividends, except as holder of the common stock to which the right is attached.

For information on the terms of the Series A Preferred Stock, see the certificate of designation for the Series A Preferred Stock, the form of which is attached as Exhibit A to the Amended and Restated Rights Agreement, dated as of March 26, 1999, filed as an exhibit to our Current Report on Form 8-K filed with the SEC on April 19, 1999, which is incorporated herein by reference.

Special Meetings of Shareholders. Pursuant to ARS § 10-702, except with respect to certain business combinations, as required by Arizona law, a special meeting of shareholders may be called by a corporation's Board of Directors or any other person authorized to do so in its articles of incorporation or bylaws. Our bylaws provide that, except as required by law, special meetings of shareholders may only be called by a majority of our Board of Directors, the Chairman of the Board, or the President.

Election and Removal of Directors. Our Board of Directors is divided into three classes. The directors in each class serve for a three year term, with one class being elected each year by our shareholders. The classification of our Board of Directors generally makes it more difficult for shareholders to effect a change in control because at least two shareholder meetings are required to elect a majority of our Board. Arizona law provides for cumulative voting in the election of directors, which may make it more difficult for shareholders to elect a majority of the Board of Directors.

Our bylaws provide that any director may be removed with or without cause, but only at a special meeting of shareholders called for that purpose, if the votes cast in favor of such removal exceed the votes cast against such removal. However, if less than the entire Board of Directors is to be removed, no one director may be removed if the votes cast against the director's removal would be sufficient to elect the director if then cumulatively voted at an election of the class of directors of which the director is a part.

Shareholder Proposals and Director Nominations. A shareholder can submit shareholder proposals and nominate candidates for election to our Board of Directors if he or she follows the advance notice provisions set forth in our bylaws.

With respect to shareholder proposals to bring business before the annual meeting, shareholders must submit a written notice to the Secretary of Pinnacle West not fewer than 90 nor more than 120 days prior to the first anniversary of the date of our previous year's annual meeting of shareholders. However, if we have changed the date of the annual meeting by more than 30 days from the date of the previous year's annual meeting, the written notice must be submitted no earlier than 120 days before the annual meeting and not later than 90 days before the annual meeting or ten days after the day we make public the date of the annual meeting. The written notice must briefly describe the business the shareholder desires to bring before the meeting, the text of the proposal or business, the reasons for conducting such business at the meeting, and any material interest in the proposal of the shareholder and the beneficial owner, if any, on whose behalf the proposal is made.

With respect to director nominations, shareholders must submit written notice to the Secretary of Pinnacle West at least 180 days prior to the date of the annual meeting. This requirement is also contained in our articles of incorporation. Our bylaws require that the written notice must contain all information relating to the director nominee that is required to be included in a proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, as well as the written consent of the proposed nominee to be named in the proxy statement as a nominee and to serving as a director if elected.

All written notices delivered pursuant to the advance notice provisions of our bylaws are required to state (i) the name and address as they appear on our books of the sponsoring shareholder and the beneficial owner, if any, on whose behalf the proposal or nomination is made, (ii) the class and number of shares that are owned beneficially and of record by the shareholder and such beneficial owner, (iii) a representation that the shareholder is a holder of record entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) whether the shareholder or beneficial owner intends or is part of a group that intends to deliver a proxy statement to holders of at least the number of shares required to adopt the proposal or elect the nominee or otherwise solicit proxies in favor of the proposal or nomination.

Shareholder proposals and director nominations that are late or that do not include all required information may be rejected. This could prevent shareholders from bringing certain matters before an annual meeting, including proposing the election of non-incumbent directors.

A shareholder must also comply with all applicable laws in proposing business to be conducted and in nominating directors. The notice provisions of the bylaws do not affect rights of shareholders to request inclusion of proposals in our proxy statement pursuant to Rule 14a-8 of the Securities Exchange Act of 1934.

Additional Authorized Shares of Capital Stock. The authorized but unissued shares of common stock and preferred stock available for issuance under our articles of incorporation could be issued at such times, under such circumstances, and with such terms and conditions as to impede an acquisition transaction.

Amendment to Articles of Incorporation and Bylaws. ARS § 10-1001 through 1003 generally provide that both the Board of Directors and the shareholders must approve amendments to an Arizona corporation's articles of incorporation, except that the Board of Directors may adopt specified ministerial amendments without shareholder approval. Unless the articles of incorporation, Arizona law or the Board of Directors would require a greater vote or unless the articles or Arizona law would require a different quorum, the vote required by each voting group allowed or required to vote on the amendment would be:

- a majority of the votes entitled to be cast by the voting group, if the amendment would create dissenters' rights for that voting group; and
- in any other case, if a quorum is present in person or by proxy consisting of a majority of the votes entitled to be cast on the matter by the voting group, the votes cast by the voting group in favor of the amendment must exceed the votes cast against the amendment by the voting group.

Our articles of incorporation require the approval of at least two-thirds of the total voting power of all outstanding shares of our voting stock to amend the provisions in Article Third relating to serial preferred stock, Article Fifth relating to the election of our directors, including number, classification, term, and nomination procedure, and Article Tenth relating to this voting requirement.

ARS § 10-1020 provides that the Board of Directors may amend the corporation's bylaws unless either: (i) the articles or applicable law reserves this power exclusively to shareholders in whole or in part or (ii) the shareholders in amending or repealing a particular bylaw provide expressly that the Board may not amend or repeal that bylaw. An Arizona corporation's shareholders may amend the corporation's bylaws even though they may also be amended by the Board of Directors. Our bylaws may not be amended or repealed without the vote of a majority of the Board of Directors or the affirmative vote of a majority of votes cast on the matter at a meeting of shareholders.

DESCRIPTION OF APS DEBT SECURITIES

General

The following description highlights the general terms of the debt securities that may be offered by APS. When we use the terms "we," "us," "our," and like terms in this description, we are referring to APS. When we offer debt securities in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which any of these general provisions will not apply.

We can issue an unlimited amount of debt securities under the indentures listed below. We can issue debt securities from time to time and in one or more series as determined by us. In addition, we can issue debt securities of any series with terms different from the terms of debt securities of any other series and the terms of particular debt securities within any series may differ from each other, all without the consent of the holders of previously issued series of debt securities. From time to time, without notice to, or the consent of, the existing holders of any series of debt securities then outstanding, we may create and issue additional debt securities equal in rank and having the same maturity, payment terms, redemption features, and other terms as the debt securities of such series, except for payment of interest accruing prior to the issue date of the additional debt securities and (under some circumstances) for the first payment of interest following the issue date of the additional debt securities. The additional debt securities may be consolidated and form a single series with previously issued debt securities of the affected series.

The debt securities will be our direct, unsecured obligations. The debt securities may be issued in one or more new series under:

- an Indenture, dated as of January 15, 1998, as amended from time to time, between JPMorgan Chase Bank, N.A. and us, in the case of senior debt securities; or
- an Indenture, dated as of January 1, 1995, as amended from time to time, between The Bank of New York and us, in the case of subordinated debt securities.

We have summarized the material provisions of the Indentures below. We have filed the Indentures as exhibits to the registration statement. You should read the Indentures in their entirety, including the definitions, together with this prospectus and the prospectus supplement before you make any investment decision. Although separate Indentures are used for subordinated debt securities and senior debt securities, references to the "Indenture" and the description of the "Indenture" in this section apply to both Indentures, unless otherwise noted.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of debt securities:

- title of the debt securities;
- the aggregate principal amount of the debt securities or the series of which they are a part;

- the date on which the debt securities mature;
- the interest rate;
- when the interest on the debt securities accrues and is payable;
- the record dates for the payment of interest;
- places where principal, premium, or interest will be payable;
- periods within which, and prices at which, we can redeem debt securities at our option;
- any obligation on our part to redeem or purchase debt securities pursuant to a sinking fund or at the option of the holder;
- denominations and multiples at which debt securities will be issued if other than $1,000;
- any index or formula from which the amount of principal or any premium or interest may be determined;
- any allowance for alternative currencies and determination of value;
- whether the debt securities are defeasible under the terms of the Indenture;
- whether we are issuing the debt securities as global securities;
- any additional or different events of default and any change in the right of the trustee or the holders to declare the principal amount due and payable if there is any default;
- any addition to or change in the covenants in the Indenture; and
- any other terms.

We may sell the debt securities at a substantial discount below their principal amount. The prospectus supplement may describe special federal income tax considerations that apply to debt securities sold at an original issue discount or to debt securities that are denominated in a currency other than United States dollars.

We must obtain the approval of the Arizona Corporation Commission ("ACC"), before incurring long-term debt. An existing ACC order allows us to have approximately $2.7 billion in principal amount of long-term debt outstanding at any one time, not including $500 million of long-term debt we issued on May 12, 2003, pursuant to a separate ACC order. We do not expect these orders to limit our ability to meet our capital requirements.

Unless the applicable prospectus supplement specifies otherwise, the debt securities will not be listed on any securities exchange.

Other than the protections described in this prospectus and in the related prospectus supplement, holders of debt securities would not be protected by the covenants in the Indenture from a highly-leveraged transaction.

Subordination

The Indenture relating to the subordinated debt securities states that, unless otherwise provided in a supplemental indenture or a board resolution, the debt securities will be subordinate to all senior debt. This is true whether the senior debt is outstanding as of the date of the Indenture or is incurred afterwards. The balance of the information under this heading assumes that a supplemental indenture or a board resolution results in a series of debt securities being subordinated obligations.

The Indenture states that we cannot make payments of principal, premium, or interest on the subordinated debt if:

- the principal, premium or interest on senior debt is not paid when due and the applicable grace period for the default has ended and the default has not been cured or waived; or
- the maturity of any senior debt has been accelerated because of a default.

The Indenture provides that we must pay all senior debt in full before the holders of the subordinated debt securities may receive or retain any payment if our assets are distributed to our creditors upon any of the following:

- dissolution;
- winding-up;
- liquidation;
- reorganization, whether voluntary or involuntary;
- bankruptcy;
- insolvency;
- receivership; or
- any other proceedings.

The Indenture provides that when all amounts owing on the senior debt are paid in full, the holders of the subordinated debt securities will be subrogated to the rights of the holders of senior debt to receive payments or distributions applicable to senior debt.

The Indenture defines senior debt as the principal, premium, interest and any other payment due under any of the following, whether outstanding at the date of the Indenture or thereafter incurred, created or assumed:

- all of our debt evidenced by notes, debentures, bonds, or other securities we sell for money;
- all debt of others of the kinds described in the preceding bullet point that we assume or guarantee in any manner; and
- all renewals, extensions, or refundings of debt of the kinds described in either of the two preceding bullet points.

However, the preceding will not be considered senior debt if the document creating the debt or the assumption or guarantee of the debt states that it is not superior to, or that it is on equal footing with, our subordinated debt securities.

The Indenture does not limit the aggregate amount of senior debt that we may issue.

Form, Exchange, and Transfer

Each series of debt securities will be issuable only in fully registered form and without coupons. In addition, unless otherwise specified in a prospectus supplement, the debt securities will be issued in denominations of $1,000 and multiples of $1,000. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

The holders of debt securities may exchange them for any other debt securities of the same series, in authorized denominations, and equal principal amount. However, this type of exchange will be subject to the terms of the Indenture and any limitations that apply to global securities.

A holder may transfer debt securities by presenting the endorsed security at the office of a security registrar or at the office of any transfer agent we designate. The holder will not be charged for any exchange or registration of transfer, but we may require payment to cover any tax or other governmental charge in connection with the transaction. We have appointed the trustee under each Indenture as security registrar. A prospectus supplement will name any transfer agent we designate for any debt securities if different from the security registrar. We may designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts at any time, except that we will maintain a transfer agent in each place of payment for debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to do any of the following:

- issue, register the transfer of, or exchange any debt securities of that series and/or tenor beginning 15 days before the day of mailing of a notice of redemption of any debt security that may be selected for redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security selected for redemption, except for an unredeemed portion of a debt security that is being redeemed in part.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, we will pay interest on a debt security on any interest payment date to the person in whose name the debt security is registered.

Unless otherwise indicated in the applicable prospectus supplement, the principal, premium, and interest on the debt securities of a particular series will be payable at the office of the paying agents that we may designate. However, we may pay any interest by check mailed to the address, as it appears in the security register, of the person entitled to that interest. Also, unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the trustee in The City of New York will be our sole paying agent for payments with respect to debt securities of each series. Any other paying agent that we initially designate for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money that we pay to a paying agent for the payment of the principal, premium, or interest on any debt security that remains unclaimed at the end of two years after the principal, premium, or interest has become due and payable will be repaid to us, and the holder of the debt security may look only to us for payment.

Consolidation, Merger, and Sale of Assets

Unless otherwise indicated in the applicable prospectus supplement, we may not:

- consolidate with or merge into any other entity;
- convey, transfer, or lease our properties and assets substantially as an entirety to any entity; or
- permit any entity to consolidate with or merge into us or convey, transfer, or lease its properties and assets substantially as an entirety to us,

unless the following conditions are met:

- the successor entity is a corporation, partnership, unincorporated organization or trust organized and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the debt securities and under the Indenture;
- immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have occurred and be continuing; and
- other conditions are met.

Upon any such merger, consolidation, or transfer or lease of properties, the successor person will be substituted for us under the Indenture, and, thereafter, except in the case of a lease, we will be relieved of all obligations and covenants under the Indenture and the debt securities.

Events of Default

Each of the following will be an event of default under the Indenture with respect to debt securities of any series:

- our failure to pay principal of or any premium on any debt security of that series when due;
- our failure to pay any interest on any debt securities of that series when due, and the continuance of that failure for 30 days;
- our failure to deposit any sinking fund payment, when due, in respect of any debt securities of that series;
- our failure to perform any of our other covenants in the Indenture relating to that series and the continuance of that failure for 90 days after written notice has been given by the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series;
- bankruptcy, insolvency, or reorganization events involving us; and
- any other event of default for that series described in the applicable prospectus supplement.

If an event of default occurs and is continuing, other than an event of default relating to bankruptcy, insolvency, or reorganization, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may declare the principal amount of the debt securities of that series to be due and payable immediately. In the case of any debt security that is an original issue discount security or the principal amount of which is not then determinable, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the portion of the principal amount of the debt security specified in the terms of such debt security to be immediately due and payable upon an event of default.

If an event of default involving bankruptcy, insolvency, or reorganization occurs, the principal amount of all the debt securities of the affected series will automatically, and without any action by the trustee or any holder, become immediately due and payable. After any acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered the trustee reasonable indemnity. Subject to provisions for the indemnification of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

No holder of a debt security of any series will have any right to institute any proceeding under the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture, unless:

- the holder has previously given the trustee written notice of a continuing event of default with respect to the debt securities of that series;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and the holder or holders have offered reasonable indemnity, to the trustee to institute the proceeding as trustee; and
- the trustee has failed to institute the proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with the request within 60 days after the notice, request, and offer of indemnity.

The limitations provided above do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal, premium, or interest on the debt security on or after the applicable due date.

We are required to furnish to the trustee annually a certificate of various officers stating whether or not we are in default in the performance or observance of any of the terms, provisions, and conditions of the Indenture and, if so, specifying all known defaults.

Modification and Waiver

In limited cases we and the trustee may make modifications and amendments to the Indenture without the consent of the holders of any series of debt securities. We and the trustee may also make modifications and amendments to the Indenture with the consent of the holders of not less than 66⅔% in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, without the consent of the holder of each outstanding debt security affected, no modification or amendment may:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
- reduce the principal amount of, or any premium or interest on, any debt security;
- reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity of the security;
- change the place or currency of payment of principal of, or any premium or interest on, any debt security;
- impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or

- reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture or is necessary for waiver of compliance with certain provisions of the Indenture or of certain defaults, or modify the provisions of the Indenture relating to modification and waiver.

In general, compliance with certain restrictive provisions of the Indenture may be waived by the holders of not less than 66⅔% in aggregate principal amount of the outstanding debt securities of any series. The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except:

- a default in the payment of principal, premium, or interest; and
- a default under covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of the affected series.

In determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver, or other action under the Indenture as of any date:

- the principal amount of an outstanding original issue discount security will be the amount of the principal that would be due and payable upon acceleration of the maturity on that date,
- if the principal amount payable at the stated maturity of a debt security is not determinable, the principal amount of the outstanding debt security will be an amount determined in the manner prescribed for the debt security; and
- the principal amount of an outstanding debt security denominated in one or more foreign currencies will be the U.S. dollar equivalent of the principal amount of the debt security or, in the case of a debt security described in the previous bullet point above, the amount described in that bullet point.

If debt securities have been fully defeased or if we have deposited money with the trustee to redeem debt securities, they will not be considered outstanding.

Except in limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or any other shorter period that we may specify. The period may be shortened or lengthened, but not beyond 180 days.

Defeasance and Covenant Defeasance

We may elect to have the provisions of the Indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series. The prospectus supplement used in connection with the offering of any debt securities will state whether we can make these elections for that series.

Defeasance and Discharge

We will be discharged from all of our obligations with respect to the debt securities of a series if we deposit with the trustee money in an amount sufficient to pay the principal, premium, and interest on the debt securities of that series when due in accordance with the terms of the Indenture and the debt securities. We can also deposit securities that will provide the necessary monies. However, we will not be discharged from the obligations to exchange or register the transfer of debt securities, to replace stolen, lost, or mutilated debt securities, to maintain paying agencies, and to hold moneys for payment in trust. The defeasance or discharge may occur only if we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities:

- will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge; and
- will be subject to federal income tax on the same amount, in the same manner, and at the same times as would have been the case if the deposit, defeasance, and discharge were not to occur.

Defeasance of Covenants

We may elect to omit compliance with restrictive covenants in the Indenture and any additional covenants that may be described in the applicable prospectus supplement for a series of debt securities. This election will preclude some actions from being considered defaults under the Indenture for the applicable series. In order to exercise this option, we will be required to deposit, in trust for the benefit of the holders of debt securities, funds in an amount sufficient to pay the principal, premium and interest on the debt securities of the applicable series. We may also deposit securities that will provide the necessary monies. We will also be required to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance were not to occur. If we exercise this option with respect to any debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of funds deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on the debt securities on any acceleration resulting from an event of default. In that case, we would remain liable for the additional payments.

Governing Law

The law of the State of New York will govern the Indenture and the debt securities.

Global Securities

Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities, which will have an aggregate principal amount equal to that of the debt securities they represent. We will register each global security in the name of a depositary or nominee identified in a prospectus supplement and deposit the global security with the depositary or nominee. Each global security will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below and other matters specified in a supplemental indenture to the Indenture.

No global security may be exchanged for debt securities registered, and no transfer of a global security may be registered, in the name of any person other than the depositary for the global security or any nominee of the depositary, unless:

- the depositary has notified us that it is unwilling or unable to continue as depositary for the global security or has ceased to be qualified to act as depositary;
- a default has occurred and is continuing with respect to the debt securities represented by the global security; or

- any other circumstances exist that may be described in the applicable supplemental indenture and prospectus supplement.

We will register all securities issued in exchange for a global security or any portion of a global security in the names specified by the depositary.

As long as the depositary or its nominee is the registered holder of a global security, the depositary or nominee will be considered the sole owner and holder of the global security and the debt securities that it represents. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

- be entitled to have the global security or debt securities registered in their names;
- receive or be entitled to receive physical delivery of certificated debt securities in exchange for a global security; and
- be considered to be the owners or holders of the global security or any debt securities for any purpose under the Indenture.

We will make all payments of principal, premium, and interest on a global security to the depositary or its nominee. The laws of some jurisdictions require that purchasers of securities take physical delivery of securities in definitive form. These laws make it difficult to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depositary or its nominee, referred to as Participants, and to persons that may hold beneficial interests through Participants. In connection with the issuance of any global security, the depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its Participants. Ownership of beneficial interests in a global security will only be shown on records maintained by the depositary or the Participant. Likewise, the transfer of ownership interests will be effected only through the same records. Payments, transfers, exchanges, and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depositary from time to time. Neither we, the trustee, nor any of our agents will have responsibility or liability for any aspect of the depositary's or any Participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising, or reviewing any records relating to the beneficial interests.

Regarding the Trustee

JPMorgan Chase Bank, N. A. is the trustee under the Indenture relating to the senior debt securities. We and our affiliates maintain normal commercial and banking relationships with JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. is the owner participant under a trust to which we sold and leased back a portion of Palo Verde Unit 2. In the future JPMorgan Chase Bank, N.A. and its affiliates may provide banking, investment and other services to us and our affiliates.

The Bank of New York is the trustee under the Indenture relating to the subordinated debt securities. It is also trustee of Pinnacle West's pension plan and under various indentures covering securities issued by our affiliates or on our behalf. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York, including The Bank of New York serving as transfer agent and registrar for Pinnacle West's common stock. In the future The Bank of New York and its affiliates may provide banking, investment and other services to us and our affiliates.

EXPERTS

The consolidated financial statements, the related consolidated financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Pinnacle West Capital Corporation Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements, the related financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Arizona Public Service Company Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

LEGAL OPINIONS

Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004, will opine on the validity of the offered securities. We currently anticipate that Pillsbury Winthrop Shaw Pittman LLP, 1540 Broadway, New York, New York 10036, will pass on certain legal matters with respect to the offered securities for any underwriters. Snell & Wilmer L.L.P. may rely as to all matters of New York law upon the opinion of Pillsbury Winthrop Shaw Pittman LLP. Pillsbury Winthrop Shaw Pittman LLP may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.

Arizona Public Service Company

$ % Notes due 20

PROSPECTUS SUPPLEMENT

BARCLAYS CAPITAL
BNY MELLON CAPITAL MARKETS, LLC
CREDIT SUISSE

, 2009

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 6:56 AM
To: McGill, James T(Z71171)
Subject: RE: Liquidity Info

ok thanks

-----Original Message-----
From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 8:50 AM
To: Schumacher, Laura
Subject: RE: Liquidity Info

One tranch. We have a call with underwriters at 9 your time to decide if we'll go today. I just got off the phone with one of them and they are going to recommend that we do.

From: Schumacher, Laura [mailto:Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 6:40 AM
To: McGill, James T(Z71171)
Subject: RE: Liquidity Info

Thanks..only one tranch? And still anouncing today?

-----Original Message-----
From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 8:38 AM
To: Schumacher, Laura
Subject: FW: Liquidity Info

Laura,
We won't be issuing the notes with a put option - just a ten year bullet.

Jim

From: McGill, James T(Z71171)
Sent: Sunday, February 22, 2009 1:31 PM
To: Schumacher, Laura
Subject: RE: Liquidity Info

Laura,
It is possible that we will be going to market first thing Monday (2/23) morning. Could you please fax (or send a pdf) your rating letter asap so I can forward it to underwriters counsel. Also, we are considering doing a 10 year note with a put option in year 4. Would that result in a different rating? I will forward potential language. We haven't put it in a pro supp yet.

Jim

From: Schumacher, Laura [mailto:Laura.Schumacher@moodys.com]
Sent: Wed 2/18/2009 2:29 PM

To: McGill, James T(Z71171)
Subject: RE: Liquidity Info

Jim,

We notice the Pinnacle information is consolidated. Can you please also give us the balances for the holding company only? Can you also tell us of the outstanding balances, how much is cash draws vs LCs vs CP cover (if any).

Thanks,
Laura

-----Original Message-----
From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 16, 2009 11:20 AM
To: Schumacher, Laura
Subject: Liquidity Info

Laura,
Here is a summary of our cash position and revolvers as of 12/31/08.

Mitchell's request for consolidating financial statements referenced 2007 statements. Did he mean 2008? The 2008 statements have not been completed yet.

Jim

<<200812-31 Liquidity.xls>>

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, February 23, 2009 7:39 AM
To: McGill, James T(Z71171)
Subject: RE: Indenture

Once I have the pricing info, I can generate a ratings letter.

-----Original Message-----
From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Sunday, February 22, 2009 03:39 PM Eastern Standard Time
To: Bettinelli, Antonio
Subject: RE: Indenture

Tony,
It is possible that we will be going to the market with our bond deal Monday (2/23) morning. Would you please fax me or send me a pdf of your rating letter so I can send it to our underwriters. Also, we are considering issuing a 10 year note with a put option in year 4. Would that change your view on the rating?

Jim

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Fri 2/6/2009 9:59 AM
To: McGill, James T(Z71171)
Subject: RE: Indenture

I'll be at my desk. Just call when available.

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Thursday, February 05, 2009 5:27 PM
To: Bettinelli, Antonio
Subject: Re: Indenture

Open 7 to 9 and 10 to 12 (Phx time)

From: Bettinelli, Antonio
To: McGill, James T(Z71171)
Sent: Thu Feb 05 17:11:54 2009
Subject: RE: Indenture

Let's chat tomorrow. What works for you?

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Wednesday, February 04, 2009 3:05 PM
To: Bettinelli, Antonio

Subject: Indenture

Tony,
Attached is the indenture for the potential upcoming debt issue. Let me know if you have any questions.

Jim

<<US_NE_500297215_3.DOC>>

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 8:07 AM
To: McGill, James T(Z71171)
Subject: Rating letter
Attachments: APS RL for Notes 2-23-091.pdf

Jim, attached is the letter you requested. Please also give me a call.

Thanks, Laura

<<APS RL for Notes 2-23-091.pdf>>

Laura Schumacher
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, New York 10007

phone: (212) 553-3853
fax: (212) 298-6316
laura.schumacher@moodys.com

Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, NY 10007

February 23, 2009

Mr. Chris Froggatt
Vice President and Treasurer
Pinnacle West Capital Corporation
400 North 5th Street, 19th Fl
Mail Station 9996
Phoenix, AZ 85004

Dear Chris:

Per your request, Moody's Investors Service has reviewed a Preliminary Prospectus Supplement (To Prospectus Dated June 28,2006) dated February 23, 2009 relating to Arizona Public Service Company's issuance of approximately $500 million of Notes due 2019.

Based upon our review and subject to final documentation, it is Moody's opinion that the Notes, which represent senior unsecured obligations of Arizona Public Service Company, be assigned a rating of Baa2.

Moody's rating is subject to revision or withdrawal at any time without prior notice. The rating and any revisions and withdrawals thereof are publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's rating desk.

If I may be of further assistance, please call me at (212) 553-3853.

Sincerely,

Laura Schumacher
Vice President - Senior Analyst

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 8:29 AM
To: McGill, James T(Z71171)
Subject: For Review
Attachments: APS PressRelease for review 2009-02-23 0947.dot

Jim

Jim attached is a draft of a press release we plan to issue this morning affirming our ratings of APS and Pinnacle. Please review for 1) factual accuracy, and 2) to be sure we are not disclosing information that should remain private.

Please get back to me as soon as possible this morning with any corrections.

Thanks,
Laura

<<APS PressRelease for review 2009-02-23 0947.dot>>

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Moody's affirms ratings of APS & Pinnacle West

Approximately $3.4 billion of debt securities affected

New York, <Rating Date Pending> -- Moody's affirms ratings of APS & Pinnacle West

Approximately $3.4 billion of debt securities affected

Moody's affirmed the ratings of Pinnacle West Capital Corporation (Pinnacle, Baa3 senior unsecured) and its subsidiary, Arizona Public Service Company (APS, Baa2 senior unsecured). The outlooks remain stable. Moody's also assigned a Baa2 rating to approximately $500 million of unsecured debt to be issued by APS.

The affirmation reflects both companies' continued financial and operating performance as well as recent decisions and recommendations of the Arizona Corporation Commission (ACC) and the ACC Staff; respectively, which in our opinion appear to be somewhat more supportive than had historically been the case. The affirmation also incorporates our expectation that, assuming reasonably supportive regulatory treatment, cash flow metrics will remain approximately within the ranges demonstrated in 2007 and 2008. In addition, the affirmation considers the recent impairment charge taken at SunCor, Pinnacle's real estate development subsidiary, and recognizes that Pinnacle's overall real estate exposure is limited.

"APS is currently experiencing improved cash flow partially as a result of the implementation of enhanced recovery mechanisms such as its forward looking power supply adjustor (PSA), a transmission cost adjustor and cash in aid of construction along with an interim increase approved in December" said Laura Schumacher, Vice President & Senior Analyst at Moody's. "Though regulatory lag persists as a result of the use of historic test years and the time required for rate case decisions, Moody's believes this pressure may be modestly relieved, or shifted, as a result the slowdown of growth in APS' service territories. We also believe the potential for rate settlements has increased, which could also potentially reduce lag."

Moody's last rating actions on Pinnacle West and APS occurred July 25, 2008 when the outlooks were revised to stable from negative.

The principal methodology used in rating Pinnacle West and APS was Rating Methodology: Global Regulated Electric Utilities. It can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodology subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Pinnacle West Capital Corporation, headquartered in Phoenix, Arizona, provides electric service to a substantial portion of the state of Arizona, sells energy-related products and services, and develops residential, commercial and industrial real estate. Pinnacle conducts its business through its subsidiaries. Wholly-owned Arizona Public Service Company is its principal subsidiary.

end

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 9:33 AM
To: McGill, James T(Z71171)
Subject: Press Release
Attachments: PNW 2.23.09 Press Release.pdf

Jim,

The press release is out. Attached is a pdf copy.

Regards,
Laura

<<PNW 2.23.09 Press Release.pdf>>

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Rating Action: Arizona Public Service Company

Moody's affirms ratings of APS & Pinnacle West

Approximately $3.4 billion of debt securities affected

New York, February 23, 2009 -- Moody's affirmed the ratings of Pinnacle West Capital Corporation (Pinnacle, Baa3 senior unsecured) and its subsidiary, Arizona Public Service Company (APS, Baa2 senior unsecured). The outlooks remain stable. Moody's also assigned a Baa2 rating to approximately $500 million of unsecured debt to be issued by APS.

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IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Monday, February 23, 2009 10:13 AM
To: McGill, James T(Z71171)
Cc: Moss, Mitchell
Subject: Draft Updates
Attachments: APS Opinion for review.pdf; Pinnacle Opinion for review.pdf

Jim,

Attached are drafts of updated credit opinions for APS and Pinnacle that we plan to post on our website either today or tomorrow. We would appreciate it if you would review the opinions for factual accuracy and to ensure we are not disclosing information that should remain private.

Thank you,
Laura
<<APS Opinion for review.pdf>> <<Pinnacle Opinion for review.pdf>>

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Arizona Public Service Company - DRAFT - In Progress or Approved Version

Phoenix, Arizona, United States

Ratings and Contacts

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

Analyst	Phone
Laura Schumacher/New York	212.553.3853
William L. Hess/New York	212.553.3837

Key Indicators

Arizona Public Service Company

ACTUALS	2008	2007	2006	2005
(CFO Pre-W/C + Interest) / Interest Expense[1][2]	4.9x	4.2x	4.4x	3.6x
(CFO Pre-W/C) / Debt[2]	22.8%	18.3%	19.0%	14.5%
(CFO Pre-W/C - Dividends) / Debt[2]	18.8%	14.0%	14.5%	9.7%
(CFO Pre-W/C - Dividends) / Capex[2]	83.4%	58.7%	79.0%	53.1%
Debt / Book Capitalization	47.2%	45.9%	46.0%	47.5%
EBITA Margin	18.1%	22.7%	23.9%	20.9%

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items [2] Changes in risk management and trading assets and liabilities are excluded from CFO Pre-W/C

Opinion

Rating Drivers

Predominantly regulated operations

Regulatory supportiveness increasing, though lag persists

Slowing growth in service territory

Appropriate financial metrics

Corporate Profile

Arizona Public Service (APS: Baa2 senior unsecured, stable) is a vertically integrated electric utility that provides electric service to most of the state of Arizona with the major exceptions of about one-half of the Phoenix metropolitan area and the Tucson metropolitan area. APS is the primary subsidiary of Pinnacle West Capital Corporation (Pinnacle: Baa3 senior unsecured, stable), a holding company that through its other subsidiaries sells energy related products and services and develops residential and commercial real estate.

DETAILED RATING CONSIDERATIONS

Stable cash flows from regulated operations

Almost all of APS' operations are regulated which is generally viewed as positive for credit quality as regulated cash flows tend to be more stable and predictable than those of unregulated companies. APS' operations are regulated by the Arizona Corporation Commission (ACC), an elected commission that has tended to render its decisions after prolonged consideration.

Regulatory supportiveness increasing, though lag persists

APS has generally been awarded relatively reasonable ROEs and equity ratios (10.75% and 54% most recently set in June 2007). However, APS' ability to earn a reasonable return on its investment has been limited due to significant regulatory lag. APS' rate cases have generally been decided in a year and a half to two years. This factor coupled with a historic test year means that rates may reflect a rate base that is more than two years old.

Reduced regulatory lag for certain items

More recently, some ACC decisions have resulted in improved recovery of some operating expenses and investments. Since 2007, the ACC has added a forward estimate of power costs to APS' fuel recovery factor in order to limit cost deferrals, created automatic cost adjustors allowing APS to earn on its transmission investments and to recover its spending for new customer hookups and renewables investments. APS has also begun to file more frequent rate cases with minimal time between rate decision and a subsequent filing.

Most recently, in December 2008, the ACC approved a $65 million interim base rate surcharge. APS had requested an increase of $115 million to improve fuel cost recovery. The interim surcharge will help mitigate the lag between APS' current rate case filing and the ACC's final rate decision. On February 4, 2009, an Administrative Law Judge granted a 30 day suspension to proceedings in APS' current rate case, filed June 2007, to allow the parties to continue settlement discussions. Should a settlement be reached, this could also potentially reduce the time to an ultimate rate decision.

Growth rate has declined

Growth in APS' service territory has slowed considerably from the above average rates of 4-5% annually experienced in 2005 and 2006 to approximately 1-1.5% expected in 2008 and going forward. Although a growing customer base can provide a source of increased revenue, assuming timely recovery of increased growth related investment and increased costs for fuel and purchased power, it has also resulted in a continuing need for capital investment and regulatory relief. Moody's believes a sustained period of slower growth could potentially temper APS' need for capital investment which could reduce its financing requirements and regulatory lag.

Financial Metrics

Since 2006, APS' key financial metrics have remained reasonably consistent and fall within the mid-to-upper range of metrics for Baa rated electric utilities in the medium risk category identified in Moody's Rating Methodology for Global Electric Utilities. APS' metrics have shown improvement from the levels observed in 2004 and 2005 as it began to recover certain costs in a timelier manner. Going forward, assuming reasonably supportive regulatory outcomes and balanced financing for capital expenditures, metrics are expected to remain in that range over the near-to-medium term. In general, Moody's would look for APS to have financial metrics that are somewhat stronger than comparably rated utility operating companies that operate in regulatory environments that have historically been more supportive of credit quality.

Primary subsidiary of Pinnacle West

Pinnacle, APS' parent company, conducts a modest amount of non-regulated activities including power marketing and trading, sales of energy related products and services, and residential and commercial real estate development through subsidiaries including SunCor Development Company (SunCor). With the slowdown in the real estate market, SunCor is not expected to provide any dividend support for Pinnacle. For the past several years, almost all of Pinnacle's cash from operations has been generated by APS. Over the near-to-medium term, Pinnacle's non-regulated businesses, are not expected to meaningfully contribute to, or detract from, consolidated cash flows. The parent company also maintains a modest amount of leverage with holding company debt equaling approximately 8% of consolidated debt.

Liquidity Profile

APS' cash flows and credit facilities generally are a stable source of liquidity. In 2008, APS' cash from operations covered approximately 76% of all its $864 million of capital expenditures and $170 million of dividends to Pinnacle. The remainder was funded through short-term borrowings and an equity infusion. Capital expenditures had previously been expected to be in the range of $1 billion annually to meet growing customer demand; however, with the slowing growth in Arizona, capital expenditures are expected to be in the range of $700 – 900 million annually over the near-term. Capital expenditures and dividends are expected to exceed cash from operations especially if customer growth improves.

Over the last several years, APS has paid dividends to Pinnacle of $170 million per year. Moody's expects APS' dividends are likely to remain near this level in 2009 and over the medium term.

APS' short-term liquidity needs are met with a commercial paper program sized at $250 million. The program is currently supported by two committed lines of credit totaling $900 million; a $400 million line that expires in December 2010 and a $500 million line that expires in September 2011 (commitments totaling about $17 million from Lehman Brothers are no longer available). Due to the recent tightening in the P-2 commercial paper market, APS has drawn from its credit facilities for liquidity support. As of December 31, 2008, APS had approximately $522 million of borrowings under its credit facilities and $72 million of cash on hand. Overall, availability under these credit facilities was $344 million at FYE.

APS' credit agreements both have one financial covenant that requires the ratio of debt to total capitalization not to exceed 65%. As of December 31, 2008, APS' debt to total capitalization ratio, calculated in accordance with the credit documents, was approximately 49%. The credit agreements do not require a Material Adverse Change (MAC) representation for revolver borrowings. No rating triggers exist in any APS credit facilities though interest costs may increase under various financing agreements if a downgrade occurs. APS' nearest long term debt maturity is $400 million of unsecured notes due October 2011. In 2010, APS must replace letters of credit supporting approximately $200 million of variable rate pollution control bonds.

Rating Outlook

The stable outlook reflects APS' predominately regulated cash flows and Moody's view that its current credit metrics are likely to be sustainable. The outlook assumes APS' will be reasonably successful in managing its regulatory relationships and that capital expenditures will be financed in a balanced manner with a goal of maintaining or improving APS' current position of financial strength.

What Could Change the Rating - Up

APS' rating is not likely to be revised upward in the near-to-medium term. Longer term, an upgrade could be possible if there is an increase in supportive regulatory treatment resulting in material, timely rate increases, or if there are material reductions in costs or leverage such that Moody's could anticipate key financial ratios improving significantly from their current levels, if for example, a ratio of CFO pre -WC / debt could be maintained in the mid-twenty percent range.

What Could Change the Rating - Down

A downgrade could result if Palo Verde experiences an extended outage and APS is unable to recover, in a timely manner, higher maintenance and purchased power costs as a result, or if APS' regulatory lag for capital spending becomes more pronounced. A downgrade could result if Moody's expects a sustained weakening of financial metrics, if for example, the ratio of CFO pre -WC / debt would remain in the mid-teens for an extended period.

Rating Factors

Arizona Public Service Company

62000

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	**Medium**	Low	**Medium**	Low	**Medium**	Low	**Medium**	Low
CFO pre-W/C to Interest (x)[1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%)[1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%)[1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

Pinnacle West Capital Corporation - DRAFT - In Progress or Approved Version

United States

Ratings and Contacts

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Sr Unsec Bank Credit Facility	Baa3
Senior Unsecured Shelf	(P)Baa3
Subordinate Shelf	(P)Ba1
Preferred Shelf	(P)Ba2
Commercial Paper	P-3

Analyst	Phone
Laura Schumacher/New York	212.553.3853
William L. Hess/New York	212.553.3837

Key Indicators

Pinnacle West Capital Corporation

ACTUALS	2008	2007	2006	2005
(CFO Pre-W/C + Interest) / Interest Expense[1][2]	**4.9x**	**4.1x**	**4.2x**	**3.7x**
(CFO Pre-W/C) / Debt[2]	**22.8%**	**17.7%**	**18.9%**	**16.4%**
(CFO Pre-W/C - Dividends) / Debt[2]	**18.5%**	**13.0%**	**14.1%**	**11.8%**
(CFO Pre-W/C - Dividends) / Capex[2]	**95.7%**	**60.2%**	**75.2%**	**69.6%**
Debt / Book Capitalization	**49.7%**	**48.5%**	**47.4%**	**48.0%**
EBITA Margin	**14.8%**	**21.4%**	**21.6%**	**18.9%**

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items [2] Changes in risk management and trading assets and liabilities are excluded from CFO Pre-W/C

Opinion

Rating Drivers

Predominantly regulated operations of subsidiaries

Regulatory supportiveness increasing, though lag persists

Limited real estate exposure

Financial metrics consistent over time

Corporate Profile

Pinnacle West Capital Corporation (Pinnacle: Baa3 senior unsecured, stable) is a holding company whose principal subsidiary, Arizona Public Service Corporation (APS: Baa2 senior unsecured, stable), is a vertically integrated electric utility that provides electric service to most of the state of Arizona with the major exceptions of about one-half of the Phoenix metropolitan area and the Tucson metropolitan area. Pinnacle's other subsidiaries are engaged in the sale of energy related products and services and the development of residential and commercial real estate.

DETAILED RATING CONSIDERATIONS

Predominantly regulated operations of subsidiaries

Pinnacle currently derives almost all of its operating cash flow from its regulated electric utility subsidiary APS and also engages in a modest amount of non-regulated activity. Pinnacle's non-regulated operations include a limited amount of energy trading, sales of energy-related products and services and commercial and residential real estate development primarily in Arizona and the western U.S. With the slowdown and decline in real estate sales and values, Pinnacle intends to evaluate strategic alternatives with regard to the current structure of its real estate business.

Regulatory supportiveness increasing, though lag persists

APS' operations are regulated by the Arizona Corporation Commission (ACC), an elected commission that has tended to render its decisions after prolonged consideration, which has hindered APS' ability to earn its allowed return its investment. Although regulatory lag remains a significant concern, recent decisions with regards to certain expenditures, for example, costs for fuel and purchased power, investment in transmission and renewables, and certain growth related expenditures should reduce the time to recover some of these items.

Reduced regulatory lag for certain items

Recent ACC decisions have resulted in improved recovery of some operating expenses and investments. Since 2007, the ACC has added a forward estimate of power costs to APS' fuel recovery factor in order to limit cost deferrals, created automatic cost adjustors allowing APS to earn on its transmission investments and to recover its spending for new customer hookups and renewables investments. APS has also begun to file frequent rate cases with minimal time between rate decision and a subsequent filing.

Most recently, in December 2008, the ACC approved a $65 million interim base rate surcharge. APS had requested an increase of $115 million to improve fuel cost recovery. The interim surcharge will help mitigate the lag between APS' current rate case filing and the ACC's final rate decision. On February 4, 2009, an Administrative Law Judge granted a 30 day suspension to proceedings in APS' current rate case, filed June 2007, to allow the parties to continue settlement discussions. Should a settlement be reached, this could also potentially reduce the time to an ultimate rate decision.

Given APS' significant capital expenditure program, the company will require continued, timely regulatory support to maintain credit metrics that are appropriate for its rating. Moody's expects that APS will maintain a balanced approach with regards to financing its capital expenditures with a goal of maintaining or improving its current level of financial strength.

Real estate exposure limited

SunCor Development Company (SunCor), Pinnacle's real estate development subsidiary, is exposed to the volatility inherent in the western real estate markets; however, Pinnacle's exposure is relatively modest. For the past several years, SunCor has taken steps to mitigate its exposure to the more unpredictable aspects of the sector by undertaking its investments via joint ventures with participating land owners. The company's strategy involves generally making only modest investments until sales agreements are in place. Most recently, SunCor's commercial and residential businesses have both weakened substantially and Pinnacle has indicated that it intends to evaluate strategic alternatives to restructure this business.

In December 2008, Pinnacle took an approximate $53 million charge to write down some of the assets of SunCor. Given market conditions, we believe additional impairments are possible but we recognize that Pinnacle's overall real estate exposure is limited. As of December 2008, the book value of Pinnacle's equity investment in SunCor was approximately $263 million, or approximately 8% of consolidated book equity. Pinnacle does not intend to invest additional equity in the business. SunCor's debt, approximately $188 million as of December 2008, is secured by properties currently under development and is non-recourse to Pinnacle, and is not guaranteed by Pinnacle.

Financial Metrics

Since 2006, Pinnacle's financial metrics have been reasonably consistent and fall within the mid-to-upper range of metrics indicated for Baa rated electric utilities within the medium risk category in Moody's Rating Methodology for Global Electric Utilities. The Baa3 rating for Pinnacle's senior unsecured debt also reflects its structurally subordinate position vis-à-vis debt at APS. Pinnacle's metrics have shown improvement from the levels observed in 2004 and 2005 as APS began to recover certain costs in a timelier manner. Going forward, assuming reasonably supportive regulatory outcomes and balanced financing for capital expenditures, cash flow credit metrics are expected to generally remain within their recent ranges. In general, Moody's would look for Pinnacle to have financial metrics that are somewhat stronger than comparably rated utility parent companies that operate in more supportive regulatory environments and that have a lower level of overall business risk.

Liquidity Profile

As a holding company, Pinnacle's primary source of liquidity is the dividends it receives from its operating subsidiaries, primarily its utility subsidiary, APS. In 2008, APS' dividends of $170 million covered approximately 77% of Pinnacle's parent level interest expenses of approximately $17 million and common stock dividends of approximately $204 million. The shortfall was funded via a combination of inter-company payments, DRIP equity, and approximately $30 million of short-term financing.

Over the last several years, APS has paid dividends to Pinnacle of $170 million annually. APS' dividends are expected to remain near this level in 2009 and over the medium term.

Pinnacle's short-term liquidity needs are met with a commercial paper program sized at $250 million. The program is supported by a $300 million revolving credit facility that expires December 2010 (commitments totaling about $34 million from Lehman Brothers are no longer available). Due to the recent tightening in the P-2 and P-3 commercial paper market, Pinnacle has drawn from its credit facilities for liquidity support. As of December 31, 2008, Pinnacle had approximately $151 million of borrowings and letters of credit drawn under the facility and approximately $6 million of cash on hand. Overall availability under the facility was $132 million at FYE.

APS also has its own $250 million commercial paper program that is supported by two of its own committed lines of credit totaling $900 million, a $400 million line that expires in December 2010 and a $500 million line that expires in September 2011 (commitments totaling about $17 million from Lehman Brothers are no longer available). As of December 31, 2008, APS had approximately $522 million of borrowings under its credit facilities. Overall availability under these credit facilities was $344 million at FYE.

The credit agreements for both Pinnacle and APS have one financial covenant that requires the ratio of debt to total capitalization not to exceed 65%. On December 31, 2008, total debt to total capitalization was approximately 51% for Pinnacle and 49% for APS. None of the credit agreements for Pinnacle or APS require a Material Adverse Change (MAC) representation for revolver borrowings or rating triggers for early repayment though interest costs may increase under various financing agreements if a downgrade occurs. SunCor has its own $150 million secured revolving facility that terminates in December 2010, under which there was approximately $120 million outstanding as of December 2008. SunCor also had approximately $68 million of additional construction loans, the majority of which is due in 2009. The SunCor loans and revolver are secured by specific interests in land, commercial properties, land contracts and/or homes under construction and are non-recourse to Pinnacle.

APS is expected to finance its capital expenditures from internal and external sources, including equity infusions from Pinnacle. SunCor is expected to finance its limited capital expenditures via a combination of its own operating cash flow and external financing.

Long-term debt at the Pinnacle parent level is limited to a $175 million of 5.91% senior notes due February 2011.

Rating Outlook

The stable outlook for Pinnacle reflects the nature of APS' predominately regulated cash flows and Moody's view that its improved cash flow financial metrics are likely to be sustainable. The outlook assumes APS will be reasonably successful in managing its regulatory relationships and that capital expenditures will be financed in a balanced manner with a goal of maintaining or improving Pinnacle's current position of financial strength.

What Could Change the Rating - Up

Pinnacle's rating is not likely to be revised upward in the near-to-medium term. Longer term, if there is an increase in supportive regulatory treatment at APS resulting in material, timely rate increases, or if there were to be material reductions in costs or leverage such that Moody's could anticipate key financial ratios improving significantly from their current levels, if for example, a ratio of CFO pre -WC / debt could be maintained in the low twenty percent range.

What Could Change the Rating - Down

A downgrade could result if Palo Verde experiences an extended outage and APS is unable to recover, in a timely manner, higher maintenance and purchased power costs as a result, or if APS' regulatory lag for capital spending becomes more pronounced. A downgrade could result if Moody's expects a sustained weakening of financial metrics, if for example, the ratio of CFO pre -WC / debt would remain below the mid-teens for an extended period. A downgrade could also result if there were to be an increase in Pinnacle's consolidated business risk profile; if for example, it were to materially increase its investment in, or its commitments to its more volatile, non-regulated operations, including SunCor.

Pinnacle West Capital Corporation

609400

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	Medium	Low	Medium	Low	Medium	Low	Medium	Low
CFO pre-W/C to Interest (x)[1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%)[1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%)[1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, February 23, 2009 10:22 AM
To: McGill, James T(Z71171)
Subject: RE: Pro Supp

Are they 144a with registration rights or without?

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 5:54 AM
To: Bettinelli, Antonio
Subject: Pro Supp

Tony,
Here's the prospectus supplement. Looks like we'll be announcing this am.

Jim

<<2146740_46302T01_cp.PDF>>

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 10:36 AM
To: 'Bettinelli, Antonio'
Subject: RE: Pro Supp

They're not 144a. It's a registered, public offering.

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, February 23, 2009 10:22 AM
To: McGill, James T(Z71171)
Subject: RE: Pro Supp

Are they 144a with registration rights or without?

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 5:54 AM
To: Bettinelli, Antonio
Subject: Pro Supp

Tony,
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Jim

<<2146740_46302T01_cp.PDF>>

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Monday, February 23, 2009 10:52 AM
To: McGill, James T(Z71171)
Subject: Re: Pro supp

Attachments: 2146740_46302T01_cp.PDF

2146740_46302T01
_cp.PDF (188 K...

Hi Jim,

Will get rating letter to you shortly. Is the mailing address for Chris as indicated below correct?

Mr. Christopher Froggatt
Vice President and Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street. 19th floor
Phoenix, AZ 85004

Thanks,

Phil

James.MCgill@pinn
aclewest.com

02/23/2009 08:52
AM

To
Philip.Smyth@fitchratings.com

cc

Subject
Pro supp

Email Firewall made the following annotations

--- NOTICE ---

errors or omissions in the contents which result from e-mail transmission.

(See attached file: 2146740_46302T01_cp.PDF)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 10:56 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: RE: Pro supp

Good except he's on the 20th floor.

-----Original Message-----
From: Philip.Smyth@fitchratings.com [mailto:Philip.Smyth@fitchratings.com]
Sent: Monday, February 23, 2009 10:52 AM
To: McGill, James T(Z71171)
Subject: Re: Pro supp

Hi Jim,

Will get rating letter to you shortly. Is the mailing address for Chris as indicated below correct?

Mr. Christopher Froggatt
Vice President and Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street. 19th floor
Phoenix, AZ 85004

Thanks,

Phil

James.MCgill@pinnaclewest.com
02/23/2009 08:52 AM

To: Philip.Smyth@fitchratings.com
cc:
Subject: Pro supp

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

(See attached file: 2146740_46302T01_cp.PDF)

Confidentiality Notice: The information in this e-mail and any attachment(s) is confidential and for the use of the addressee(s) only. If you have received this e-mail in error, please delete this e-mail. Unauthorized use, reliance, disclosure or copying of the contents of this e-mail, or any similar action, is prohibited.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, February 23, 2009 1:12 PM
To: McGill, James T(Z71171)
Subject: RE: Pro Supp

Are you pricing today? Let me know if plans change. Thanks.

-----Original Message-----
From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 08:53 AM Eastern Standard Time
To: Bettinelli, Antonio
Subject: Pro Supp

Tony,
Here's the prospectus supplement. Looks like we'll be announcing this am.

Jim

<<2146740_46302T01_cp.PDF>>

Email Firewall made the following annotations

--- NOTICE ---

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, February 23, 2009 1:23 PM
To: 'Bettinelli, Antonio'
Subject: APS Final Term Sheet (Draft) (2) (2).doc

Attachments: APS Final Term Sheet (Draft) (2) (2).doc

We priced a little over an hour ago.

APS Final Term Sheet (Draft) (...

Filed under Rule 433
File No. 333-134206-01

Final Term Sheet

February 23, 2009

Issuer:	Arizona Public Service Company
Security:	$500,000,000 8.750% Notes due 2019
Maturity:	March 1, 2019
Interest rate:	8.750%
Yield to maturity:	8.758%
Spread:	595 basis points
Benchmark treasury security:	2.75% due February 15, 2019
Benchmark treasury yield:	2.808%
Optional redemption:	Make-whole call at any time at treasury rate plus 50 basis points
Interest payment dates:	March 1 and September 1
First interest payment date:	September 1, 2009
Public offering price:	99.945% per note
Trade date:	February 23, 2009
Settlement date:	February 26, 2009 (T+3)
Ratings:	Baa2 / BBB- / BBB (Moody's / S&P / Fitch) **Note:** A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.
Joint Book-Running Managers:	Barclays Capital Inc.; BNY Mellon Capital Markets, LLC; Credit Suisse Securities (USA) LLC
Co-Managers:	KeyBanc Capital Markets Inc.; Mizuho Securities USA Inc.; Wedbush Morgan Securities Inc.
CUSIP:	040555CL6

The pro forma ratio of earnings to fixed charges for the year ended December 31, 2008 was [____].

Arizona Public Service Company has filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents Arizona Public Service Company has filed with the SEC for more complete information about Arizona Public Service Company and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Arizona Public Service Company, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Barclays Capital Inc. toll-free at 1-888-227-2275, Ext. 2663, BNY Mellon Capital Markets, LLC toll-free at 1-800-269-6864 or Credit Suisse Securities (USA) LLC toll-free at 1-800-221-1037.

Filed under Rule 433
File No. 333-134206-01

Final Term Sheet

February 23, 2009

Issuer:	Arizona Public Service Company
Security:	$500,000,000 8.750% Notes due 2019
Maturity:	March 1, 2019
Interest rate:	8.750%
Yield to maturity:	8.758%
Spread:	595 basis points
Benchmark treasury security:	2.75% due February 15, 2019
Benchmark treasury yield:	2.808%
Optional redemption:	Make-whole call at any time at treasury rate plus 50 basis points
Interest payment dates:	March 1 and September 1
First interest payment date:	September 1, 2009
Public offering price:	99.945% per note
Trade date:	February 23, 2009
Settlement date:	February 26, 2009 (T+3)
Ratings:	Baa2 / BBB- / BBB (Moody's / S&P / Fitch) **Note:** A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.
Joint Book-Running Managers:	Barclays Capital Inc.; BNY Mellon Capital Markets, LLC; Credit Suisse Securities (USA) LLC
Co-Managers:	KeyBanc Capital Markets Inc.; Mizuho Securities USA Inc.; Wedbush Morgan Securities Inc.
CUSIP:	040555CL6

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McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Monday, February 23, 2009 1:34 PM
To: McGill, James T(Z71171)
Subject: Fitch rating letter attached

Attachments: PNW_APS_Rating Letter_2.23.2009_P.pdf

PNW_APS_Rating Letter_2.23.200...

Hi Jim,

Here is the rating letter for the APS issuance. Please let me know if you need anything further.

Thanks,

Phil

(See attached file: PNW_APS_Rating Letter_2.23.2009_P.pdf)

FitchRatings

One State Street Plaza
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

February 23, 2009

Mr. Christopher Froggatt
Vice President and Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street. 20th floor
Phoenix, AZ 85004

Re: Arizona Public Service Company $500 million Senior Unsecured Notes

Dear Mr. Froggatt,

Fitch Ratings ("**Fitch**") has assigned a 'BBB' rating to the above referenced securities. The Rating Outlook is Stable.

Ratings assigned by Fitch are based on the information and documents provided to us by you and other parties and are subject to receipt of the final closing documents. Fitch relies on all these parties for the accuracy of such information and documents. Fitch did not audit or verify the truth or accuracy of such information.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings. Nothing in this letter shall limit our right to publish, disseminate or license others to publish or otherwise to disseminate the ratings or the rationale for the ratings.

FitchRatings

In this letter, "**Fitch**" means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at 212 908 0531.

Sincerely,

Fitch
Philip W. Smyth, CFA
Senior Director
Global Power

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Monday, February 23, 2009 3:12 PM
To: McGill, James T(Z71171)
Subject: rating letter

Hi Jim!

Please confirm receipt of the rating letter sent earlier today. Thanks.

Phil

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, February 23, 2009 5:12 PM
To: McGill, James T(Z71171)
Subject: S&P Rating Letter
Attachments: 2008 US Corporates Terms Conditions .pdf; APS Rating Letter.pdf

Sorry for the delay.

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Monday, February 23, 2009 12:23 PM
To: Bettinelli, Antonio
Subject: APS Final Term Sheet (Draft) (2) (2).doc

We priced a little over an hour ago.

<<APS Final Term Sheet (Draft) (2) (2).doc>>

STANDARD
&POOR'S

55 Water Street
New York, NY 10041
212 438-2000 Tel
212 438 2660 Fax

Feb 23, 2009

Arizona Public Service Co.
400 North Fifth Street
Phoenix, AZ 85004

Attention: Mr. James McGill, Director of Corporate Finance and Treasury Operations

Re: Arizona Public Service Co.'s $500 million 8.750% Notes due 2019

Dear Mr. McGill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced Arizona Public Service Co. , we have reviewed the information submitted to us and, subject to the enclosed Terms and Conditions, have assigned the following rating(s)

Rated Principal	Legal Final Maturity	Rating	Outlook / Credit Watch
$500,000,000	Mar 01, 2019	BBB-	N/A

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

Standard & Poor's intends to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

STANDARD
&POOR'S

55 Water Street
New York, NY 10041
212 438-2000 Tel
212 438 2660 Fax

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating. Please send all information available via electronic delivery to: tony_bettinelli@sandp.com. In addition, please send hard copies of all information to: Standard & Poor's Ratings Services, 55 Water Street, 38 floor, New York, New York 10041-0003, Attention: Utilities & Infrastructure Surveillance Group.

Standard & Poor's is pleased to have the opportunity to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Very truly yours,

Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.

Standard & Poor's

Analytical Contact: Tony Bettinelli

STANDARD
&POOR'S

Standard & Poor's Ratings Services
Terms and Conditions
Applicable To
U.S. Corporate Ratings

Scope of Rating. The Company understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the Company's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the Company will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the Company or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the Company, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the Company specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the Company or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. As a matter of policy, Standard & Poor's publishes ratings for all public issues in the U.S. market and 144A issues with registration rights. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Company. The Company shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The Company also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the Company or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by the Company or its agents. Standard & Poor's reserves the right to withdraw the rating if the Company or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from the Company which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received from the Company specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by the Company shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in writing by the Company for public disclosure, or (vii) is required by law to be disclosed by the Company or Standard & Poor's provided that notice of such required disclosure is given to the Company. Commencing on the date hereof, Standard & Poor's will use Confidential Information only in connection with the assignment and monitoring of ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to the

Company. The Company agrees that the Confidential Information may be used to raise, lower, suspend, withdraw, place on CreditWatch, and change the Outlook assigned to any rating if the Confidential Information is not directly disclosed.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The Company understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the Company and that the Company should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the Company or between Standard & Poor's and recipients of the rating. The Company understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The Company agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the Company or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the Company or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The Company acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Long-term Relationship. Once the Company accepts a Standard & Poor's rating, it enters into a long-term relationship with Standard & Poor's. As part of this, Standard & Poor's will assign and maintain a Long-Term Corporate Credit Rating (issuer rating) on the Company and expects to rate syndicated bank loans and any and all public debt that is issued by, guaranteed by, and/or is in any other manner an obligation of the Company.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, February 26, 2009 10:44 AM
To: 'Bettinelli, Antonio'
Subject: Stats for SP (2).xls

Attachments: Stats for SP (2).xls

Tony,
Here's the data you requested. Not sure how you define inactive - let me know and we'll fill in that line.

Jim

Stats for SP (2).xls
(12 KB)

REDACTED

Arizona Public Service Company

Company Data	2007	2008	Nov	Dec	Jan
Customers					
Residential	979,138	986,363	979,259	986,363	988,831
Commercial (Non-Residential)	122,299	125,131	124,777	125,131	125,106
Past Due Accounts					
Residential ($m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Commercial	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inactive (Residential & Non Residential)					
Bad Debt/Write-off ($m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bad Debt/Write-off ($m) cummulative			[redacted]	[redacted]	[redacted]
Employment Data[1]	**2007**	**2008**	**Nov**	**Dec**	**Jan**
Employment (000's)	1,928.0	1,841.2	1,850.5	1,841.2	not available
Y/Y % Change	(0.1)	(4.5)	(4.0)	(4.5)	not available
Unemployment Rate	3.8	6.1	5.5	6.1	not available

[1] Employment Data provided by The Bureau of Labor Statistics for the Phoenix-Mesa-Scottsdale MSA.
2009 Statistics are not available as of 2/25/09 and December employment data is preliminary.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, March 02, 2009 3:24 PM
To: 'Bettinelli, Antonio'
Subject: Stats for SP (2).xls

Attachments: Stats for SP (2).xls

Tony,
Here is the completed stat sheet you requested. Let me know if you have any questions.

Jim

Stats for SP (2).xls
(18 KB)

Arizona Public Service Company

Company Data	**2007**	**2008**	**Nov**	**Dec**	**Jan**
Customers					
Residential	979,138	986,363	979,259	986,363	988,831
Commercial (Non-Residential)	122,299	125,131	124,777	125,131	125,106
Past Due Accounts					
Residential ($m)	15.3	0.7	21.1	0.7	13.3
Commercial	6.0	0.2	6.0	0.2	5.1
Inactive (Residential & Non Residential $m)	6.5	6.8	7.8	6.8	5.9
Inactive (Residential & Non Residential accounts)	25,184	24,698	28,719	24,698	24,153
Bad Debt/Write-off ($m)	5.1	7.7	0.3	0.9	1.0
Bad Debt/Write-off ($m) cummulative			6.8	7.7	1.0

Employment Data[1]	**2007**	**2008**	**Nov**	**Dec**	**Jan**
Employment (000's)	1,928.0	1,841.2	1,850.5	1,841.2	not available
Y/Y % Change	(0.1)	(4.5)	(4.0)	(4.5)	not available
Unemployment Rate	3.8	6.1	5.5	6.1	not available

[1] Employment Data provided by The Bureau of Labor Statistics for the Phoenix-Mesa-Scottsdale MSA.
2009 Statistics are not available as of 3/2/09 and December employment data is preliminary.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]

Sent: Tuesday, March 03, 2009 10:13 AM

To: McGill, James T(Z71171)

Subject: Suncor

Jim,

Would you please send me the 2008 financials for Suncor?

Tony Bettinelli
Associate

U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market St.
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(415) 371-5067 Fax: (415) 371-5090
tony_bettinelli@sandp.com

Standard & Poor's will host the 16th Annual Utility Conference, "2020 Credit Vision," on Tuesday, March 10, 2009 in New York City. Details are available at http://www.events.standardandpoors.com/utility. We hope you will join us.

McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Tuesday, March 03, 2009 12:55 PM
To: McGill, James T(Z71171)
Subject: FW: S&P PPA update request

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, March 03, 2009 12:34
Subject: S&P PPA update request

We are requesting your current purchased power contract information, in order to update our imputed debt adjustment. Please send us a summary of each contract, including:

-Contract Name
-Contract Start & Term (yrs)
-Minimum annual capacity payments ($) or
-Expected annual payments (if no capacity payment)

Please exclude all contract of less than 3 years in total duration. We also need this information on any signed contracts, even if they are not delivering, although they may not be included. Spreadsheet format is preferred, if possible, but I'll take any format as long as I'm able to calculate the payments. Let me know if you have any questions.

Thanks!

Tony Bettinelli
Associate

U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market St.
Steuart Tower, 15th Floor
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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, March 03, 2009 1:19 PM
To: 'Bettinelli, Antonio'
Subject: SunCor F/S

Attachments: PWCC final.pdf

Here you go.

PWCC final.pdf (38 KB)

Table of Contents

PWCC

SunCor Development Company
BALANCE SHEET - PWCC
as of Dec FY08

	FY08 Dec	FY07 Dec
ASSETS:		
Cash & Short Term Investments	27,434,688.54	3,639,650.81
Restricted Cash	1,069,621.16	526,059.66
Accounts Receivable	2,195,703.09	5,718,171.96
Homebuilding Inventory		
Home Inventory - Coral Canyon	2,594,293.17	5,426,021.28
Home Inventory - Rancho Viejo	2,682,548.15	3,210,792.11
Home Inventory - SunCor Homes - Palm Valley	9,228,587.07	3,843,861.07
Home Inventory - SunCor Homes - Prescott Lakes	662,221.82	5,026,613.11
Home Inventory - StoneRidge	1,565,708.18	2,516,024.45
Home Inventory - Avimor	4,763,504.40	1,854,378.16
Home Inventory - Yavapai	0.00	0.00
Home Inventory - Ranch Communities	0.00	0.00
Condo Inventory - Edgewater	0.00	0.00
Condo Inventory - Bridgeview	28,590,667.39	75,851,460.71
Home Inventory - Accrual	600,000.00	1,000,000.00
Total Homebuilding Inventory	**50,687,530.18**	**98,729,150.89**
Notes Receivable	5,174,192.90	248,500.00
Land		
Coral Canyon	35,764,686.51	37,805,104.93
Rancho Viejo	32,110,690.73	36,247,443.21
Palm Valley	79,692,122.63	101,631,318.06
Hayden Ferry Lakeside	2,484,984.84	2,320,744.04
Palm Valley Commercial	4,556,425.59	15,017,399.30
Prescott Lakes	7,632,450.42	23,761,388.63
StoneRidge	27,470,258.57	28,411,901.28
Avimor	41,185,326.59	37,353,930.82
SDC Yavapai	0.00	6,199,165.94
Marina Heights	21,728,577.28	21,541,774.61
Ranch Communities	5,703,169.81	5,700,816.31
Total Land	**258,328,692.87**	**315,990,987.13**
Buildings under Development		
Coral Canyon	46,916.20	45,319.68
Hayden Ferry Lakeside	6,625,502.10	5,715,771.34
Rio West	0.00	0.00
Palm Valley	18,499,472.98	5,171,858.52
Condos at HFL	9,874,043.57	10,240,329.48
Total Buildings under Development	**35,046,934.86**	**21,173,279.02**
Land & CFD - FIN 45 Accrual	5,708,564.97	11,774,277.46
Land Accrual - FIN 46	29,351,775.00	37,903,036.00
Property Plant & Equipment		
Coral Canyon	7,648,652.48	7,869,499.59
Rancho Viejo	502,092.00	555,041.48
Ranchland Utilities	4,711,746.35	1,692,117.06
SunCor Homes - Palm Valley	69,809.73	410,877.93
SunCor Homes - Prescott Lakes	267,548.28	0.00
StoneRidge	7,328,868.28	7,682,593.99
Avimor	827,706.62	131,672.53
Avimor Water Reclamation Plant	6,502,546.65	0.00
Yavapai	0.00	0.00
Ranch Communities	0.00	0.00
SunCor Commercial Construction	10,863,639.11	13,866,896.64
Lakeside Residential	18,281.14	91,978.32
SunCor Corporate Commercial & Design	27,404,837.23	75,628,981.99
SunCor Corporate (Inc. SunCor Financial)	1,689,589.77	2,123,331.40
Palm Valley Golf Course	879,623.99	8,399,388.83
Club West Golf Course	7,187,137.04	7,321,224.93
SunRidge Canyon Golf Course	7,717,116.80	8,027,736.14
Sanctuary Golf Course	8,880,471.95	9,154,427.50
Total PP&E	**92,499,667.42**	**142,965,768.33**
Investment In Joint Ventures	3,921,411.44	3,347,712.16
Other Assets		
Prepaid Tax	0.00	789,720.32
Prepaid Assets and Other	1,626,851.00	1,280,275.86
TOLI/COLI Insurance	1,293,827.51	1,798,723.77
Assets held for Sale	0.00	6,856,818.08
Deferred Assets	8,778,351.11	9,225,644.75
Deferred Assets - Income Taxes	23,469,177.70	8,502,728.70
Total Other Assets	**35,168,207.32**	**28,453,911.48**
TOTAL ASSETS	**546,585,989.84**	**670,460,504.90**

	FY08 Dec	FY07 Dec
LIABILITIES:		
AP & Other Accrued Liabilities		
Account Payable	121,919.14	202,808.06
Retention	1,024,061.50	6,703,302.94
WIP Accrual	799,999.97	14,000,000.46
Accrued Payroll Liablities	1,295,953.82	5,486,008.27
Intercompany - PWCC	7,117,151.53	6,746,569.11
Intercompany	0.00	0.00
Deposits	1,292,500.67	8,633,238.07
Pension Liability	12,277,464.45	11,803,580.32
Accrued Income Tax	910,223.65	0.00
CFD Payable	185,400.00	77,028.29
Real Estate Tax Payable	1,205,904.83	989,126.01
Deferred Revenue/Cost of Sale	8,081,260.92	11,648,889.42
Other Accrued Liabilities	7,500,798.44	9,957,525.44
Other Current Liabilities	517,186.20	537,565.11
CFD Accrual - Short Term	782,087.00	1,377,028.00
CFD Accrual - Long Term	4,726,478.00	1,397,249.00
Interest Payable	560,487.96	1,574,601.85
Total AP & Other Accrued Liabilities	**48,398,878.08**	**81,134,520.35**
Notes Payable		
Current Maturity of Capital Leases	148,481.00	150,612.00
Capital Leases less Current Maturity	180,311.51	218,344.49
Short Term Notes Payable	4,785,000.00	7,660,691.00
Current Maturity of Long Term Debt	176,624,084.03	162,645,167.15
Long Term Debt less Current Maturity	6,180,330.98	75,025,776.31
Total Notes Payable	**187,918,207.52**	**245,700,590.95**
TOTAL LIABILITIES	**236,317,085.60**	**326,835,111.30**
Minority Interest	18,037,638.07	16,666,357.39
Minority Interest - FIN 46	29,351,775.00	37,903,036.00
STOCKHOLDERS EQUITY:		
Common Stock	1,022,000.00	1,022,000.00
Additional Paid In Capital	79,031,421.94	79,031,421.94
Accumulated Earnings	182,826,069.23	209,002,578.27
TOTAL STOCKHOLDERS EQUITY	**262,879,491.17**	**289,056,000.21**
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	**546,585,989.84**	**670,460,504.90**

SUNCOR DEVELOPEMENT COMPANY
STATEMENT OF INCOME
FOR THE PERIOD ENDING Dec FY08

	FY08 Dec Actual	Over/(Under) Budget	Over/(Under) Prior Year	FY08 Dec Budget	FY07 Dec Actual	FY08 Y-T-D(Dec) Actual	Over/(Under) Budget	Over/(Under) Prior Year	FY08 Y-T-D(Dec) Budget	FY07 Y-T-D(Dec) Actual
REVENUES										
Land Sales	1,213,941.84	613,941.84	11,168,809.01	600,000.00	12,382,750.85	10,361,915.21	17,646,930.32	60,387,363.96	28,008,845.53	70,749,279.17
Home Sales	8,940,166.10	3,262,005.90	1,994,855.47	10,683,616.00	7,661,661.57	97,403,554.33	33,061,056.67	85,478,483.76	130,464,611.00	111,013,810.23
Lot Sales	0.00	135,000.00	232,000.00	135,000.00	232,000.00	0.00	987,888.00	1,197,700.00	987,888.00	1,197,700.00
Commercial Property & Mgmt	1,507,387.08	595,896.71	466,910.65	2,103,283.79	1,974,297.73	20,729,960.27	5,337,449.30	3,238,232.68	26,067,409.57	23,968,192.95
Asset Sales	0.00	0.00	0.00	0.00	0.00	2,571,560.32	976,629.68	5,567,094.48	3,548,190.00	8,138,654.80
SunCor Construction Inc.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL REVENUE	11,661,495.02	1,860,404.77	10,589,215.13	13,521,899.79	22,250,710.15	131,066,990.13	58,009,953.97	84,000,647.02	189,076,944.10	215,067,637.15
COST OF REVENUES										
Land Sales	1,018,345.01	718,345.01	5,134,658.06	300,000.00	6,153,003.07	6,984,199.46	11,642,161.80	20,714,736.77	18,626,361.26	27,698,936.23
Home Sales	8,275,643.28	1,620,687.63	2,443,535.72	8,277,436.41	7,751,542.14	82,374,414.02	19,103,311.02	66,877,195.29	101,477,725.04	91,520,353.27
Lot Sales	0.00	122,310.00	71,655.00	122,310.00	71,655.00	4,274.88	846,186.80	889,481.58	850,461.68	893,756.46
Asset Sales	88,800.59	88,800.59	32,922.71	0.00	121,723.30	2,334,219.52	114,073.79	3,966,891.48	2,448,293.31	6,301,111.00
SunCor Construction Inc.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Land Project Cost	(780,220.81)	1,509,201.02	890,736.60	728,980.21	110,515.79	7,988,660.00	744,917.21	1,141,799.39	8,733,577.21	6,846,860.61
Commercial Property & Mgmt	1,208,553.67	(324,205.09)	(280,479.97)	1,638,571.10	1,489,033.64	18,427,385.11	(1,687,765.59)	(863,080.88)	20,612,351.44	19,667,994.41
TOTAL COST OF REVENUES	9,811,121.74	1,256,175.98	5,886,351.20	11,067,297.72	15,697,472.94	118,113,152.99	34,635,616.95	34,815,858.99	152,748,769.94	152,929,011.98
GROSS MARGIN	1,850,373.28	604,228.79	4,702,863.93	2,454,602.07	6,553,237.21	12,953,837.14	23,374,337.02	49,184,788.03	36,328,174.16	62,138,625.17
OTHER INCOME										
Equity In JV Earnings	(54,853.71)	860.52	8,115,887.81	(55,714.23)	8,061,034.10	411,526.28	28,781.67	7,794,330.11	382,744.61	8,205,856.39
Interest Income	17,409.65	23,140.34	64,088.33	40,549.99	81,497.98	267,709.43	218,890.52	714,582.55	486,599.95	982,291.98
Other - Net	(59,311.99)	69,311.99	100,105.81	10,000.00	40,793.82	1,819,896.20	1,699,896.20	305,246.86	120,000.00	1,514,649.34
TOTAL OTHER INCOME	(96,756.05)	91,591.81	8,280,081.95	(5,164.24)	8,183,325.90	2,499,131.91	1,509,787.35	8,203,665.80	989,344.56	10,702,797.71
OTHER EXPENSES										
General & Administrative	1,111,969.58	(1,913,207.45)	(2,322,766.06)	3,063,330.97	3,892,577.92	31,669,607.98	(5,902,829.04)	(7,833,536.60)	37,572,437.02	39,503,144.58
Fair Value Adjustment	53,250,150.00	53,250,150.00	53,250,150.00	0.00	0.00	53,250,150.00	53,250,150.00	53,250,150.00	0.00	0.00
Depreciation	437,556.83	(28,735.09)	(86,943.30)	466,291.92	524,500.13	4,930,031.38	(296,067.87)	(365,939.58)	5,226,099.25	5,295,970.96
Interest Expense	781,041.58	(369,952.84)	(722,952.18)	1,523,089.82	1,726,584.36	10,528,099.56	(1,824,764.16)	(4,348,435.46)	15,990,757.38	19,104,300.34
Less Capitalized Interest	(157,276.26)	556,000.54	834,247.48	(713,276.80)	(991,523.74)	(4,196,959.57)	3,643,710.99	6,462,318.12	(7,840,670.56)	(10,659,277.69)
TOTAL OTHER EXPENSES	55,423,441.73	51,084,005.82	50,271,303.06	4,339,435.91	5,152,138.67	96,180,929.35	45,232,306.26	42,936,791.16	50,948,623.09	53,244,138.19
INCOME BEFORE MINORITY INT.	(53,669,824.50)	(50,388,185.22)	(37,288,357.18)	(1,889,998.08)	9,584,424.44	(80,727,960.30)	(20,348,181.89)	14,451,662.67	(13,631,104.37)	19,597,284.69
Minority Interest	90,448.77	126,341.91	35,786.99	(35,893.14)	54,661.78	668,719.32	690,046.72	1,777,590.56	(21,327.40)	(1,108,871.24)
INCOME BEFORE TAXES & DISC OPS	(53,579,375.73)	51,653,484.51	63,218,461.95	(1,925,891.22)	9,639,086.22	(80,059,240.98)	66,406,809.21	98,547,654.43	(13,652,431.77)	18,488,413.45
Income Taxes	20,682,264.71	19,925,100.15	23,455,499.71	757,164.56	(2,773,235.00)	31,192,430.58	25,814,095.65	37,469,707.68	5,378,334.93	(6,277,277.10)
Discontinued Operations - Revenue	10,261,154.67	10,537,681.55	13,056,527.14	101,585.02	23,201,380.93	111,332,901.46	18,365,521.42	50,246,433.27	122,277,585.88	64,174,227.59
Discontinued Operations - Expenses	(7,407,406.21)	7,490,219.53	12,371,456.30	0.00	(19,769,727.67)	(73,951,867.55)	13,458,961.18	29,103,642.55	(70,761,628.87)	(45,239,443.50)
Discontinued Operations - Taxes	(1,100,793.00)	1,058,756.48	234,741.00	(42,036.52)	(1,335,534.00)	(14,690,732.55)	5,530,104.89	8,633,239.58	(20,220,837.44)	(7,452,731.17)
Total Discontinued Operations	1,752,955.46	19,086,657.56	25,662,724.44	59,548.50	2,096,119.26	22,690,301.36	37,354,587.49	87,983,315.40	31,295,119.57	11,482,052.92
NET INCOME	(31,144,155.56)	30,034,977.40	40,106,126.04	(1,109,178.16)	8,961,970.48	(26,176,509.04)	49,197,531.77	49,869,698.31	23,021,022.73	23,693,189.27

February 06, 2009 12:48 PM

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Wednesday, March 04, 2009 11:03
To: Omanovic, Rufad (Z72366)
Subject: restrictive covenants?

How much wiggle room do you currently have under your restrictive covenants, post issuance?

Thanks Rufad.

Tony Bettinelli
Associate

U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market St.
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(415) 371-5067 Fax: (415) 371-5090
tony_bettinelli@sandp.com

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, March 05, 2009 12:49 PM
To: 'Bettinelli, Antonio'
Subject: Stats for SP (3).xls

Attachments: Stats for SP (3).xls

Tony,
Here's an updated stat sheet. Let me know if you have any questions.

Stats for SP (3).xls
(19 KB)

Jim

REDACTED

Arizona Public Service Company

Company Data	**2007**	**2008**	**Nov**	**Dec**	**Jan**
Customers					
Residential	979,138	986,363	979,259	986,363	988,831
Commercial (Non-Residential)	122,299	125,131	124,777	125,131	125,106
Past Due Accounts					
Residential ($m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Commercial	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inactive (Residential & Non Residential $m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inactive (Residential & Non Residential accounts)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bad Debt/Write-off ($m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bad Debt/Write-off ($m) cummulative	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Employment Data[1]	**2007**	**2008**	**Nov**	**Dec**	**Jan**
Employment (000's)	1,928.0	1,841.2	1,850.5	1,841.2	not available
Y/Y % Change	(0.1)	(4.5)	(4.0)	(4.5)	not available
Unemployment Rate	3.8	6.1	5.5	6.1	not available

[1] Employment Data provided by The Bureau of Labor Statistics for the Phoenix-Mesa-Scottsdale MSA.
2009 Statistics are not available as of 3/5/09 and December employment data is preliminary.

STANDARD
& POOR'S

16th Annual Utilities Conference 2009: 2020 Credit Vision

March 10, 2009
The McGraw-Hill Companies Auditorium
New York, New York

STANDARD
& POOR'S

Welcome

Steve Dreyer

Practice Leader
Utilities & Infrastructure Ratings

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STANDARD
POOR'S

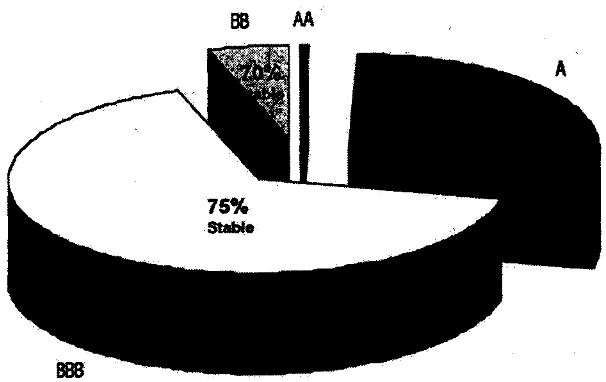
Opening Remarks

John Whitlock

Managing Director
Utilities & Infrastructure Ratings

Stable Ratings Trend

Electric Utility Ratings Distribution



No. of Issuers = 185
Feb 2009

4

STANDARD
&POOR'S

U.S. Electric Utilities – 2009 Ratings Trend

Stable ratings trend for 2009 is supported by S&P's expectations of:

- Responsive Regulatory Actions
- Continued Access to Capital Markets
- Delay in New Baseload Construction
- Smooth Transition to Deregulated Market Status

Higher Credit Ratings Limited in 2 year forecast:

- Substantial Capital Expenditures
- Recessionary Pressure on Cash Flow and Debt Balances
- Carbon Debate in Washington

STANDARD &POOR'S

5.

Obama Administration Energy Priorities

Stimulus Package

- Energy Efficiency
- Renewables
- Smart Grid
- Sequestration Technology

Renewing America's Promise

- Clean Energy
- Modernize Electricity Delivery Infrastructure
- Advance Low-Carbon Coal Technologies

Climate Change

- Debate in Washington Underway
- Ultimate Cost Undefined
- How Quickly Implemented

STANDARD &POOR'S

6.

STANDARD & POOR'S

A View from the Top

John Whitlock, Managing Director, Standard & Poor's - Moderator

William D. Johnson, Chairman & CEO, Progress Energy
J. Wayne Leonard, Chairman & CEO, Entergy Corporation
David M. Ratcliffe, Chairman, President & CEO, Southern Company

STANDARD & POOR'S

The Economic Outlook: Fasten Your Seatbelts

David Wyss
Chief Economist
Standard & Poor's

March 10, 2009
Data as of February 24

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The U.S. Is In Recession

- The economy is in recession.
- Housing has been in recession for three years, subtracting over a percentage point from GDP growth in both 2007 and 2008.
- But that was offset by strength in nonresidential construction and the closing of the trade gap, each of which added back about a half point in 2007.
- Weaker overseas growth will mean less benefit from the trade deficit, despite the declining dollar.
- Nonresidential construction is plunging.
- The fiscal 2008 deficit beat the 2004 record; 2009 may triple 2008.
- The Fed has cut rates sharply.
- The recession will be long and deep.
- And an even deeper recession is possible if the financial markets remain locked up, oil prices rebound, and home prices continue to drop.

STANDARD &POOR'S

9.

The Housing Bubble

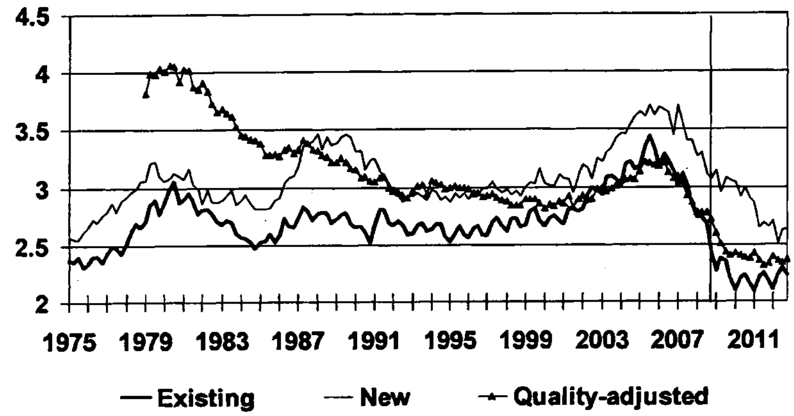
- Housing was too affordable, thanks to low mortgage rates
- But what happened when rates went up?
- Ratio of home price to income hit a record high in 2006,
- Which could not be maintained at higher interest rates
- We built too many houses at too high prices
- Starts and sales have dropped sharply
- Defaults have soared, cutting back on willingness to lend
- Prices are down 25% from their peak
- And the ratio of home price to income is below its historical average
- We expect to hit bottom on starts this winter
- But prices probably won't hit bottom until early 2010.

STANDARD &POOR'S

10.

Home Prices Were Too High

(Ratio of average home price to average household disposable income)



Source: BEA, Census

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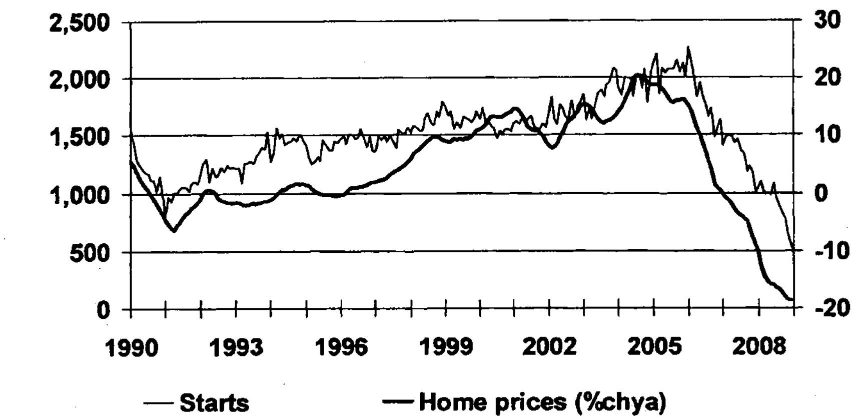
The Housing Market Cycle

(Housing starts (1000) and 12-month % change in home prices (S&P/Case-Shiller))



Source: S&P and Census Bureau

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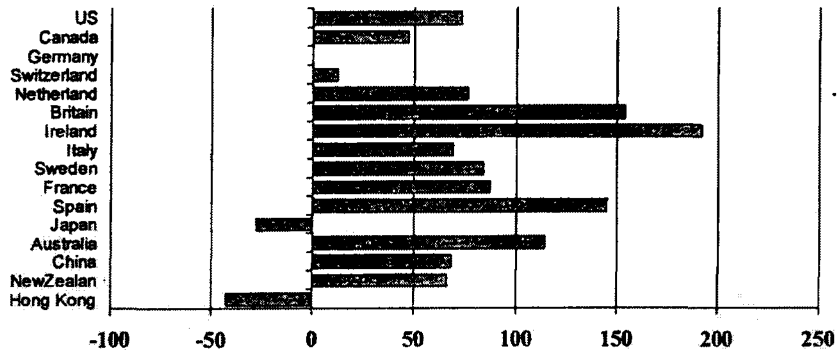
Bubbles Were Almost Everywhere

(Percent increase in home prices, 1997-2005)



Source: Mortgage Bankers' Association and S&P

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Most Weakness Is In The Bubble Cities

(S&P/Case-Shiller Home Price Indexes, December)

	Decline from July 2006	2002-2005 average (12-month percent change)	Price/income ratio (2005)
Top 5			
Charlotte	-4.3	4.1	3.8
Dallas	-7.8	2.7	3.0
Denver	-10.3	2.6	4.5
Seattle	-11.0	12.2	7.1
Portland, OR	-11.8	13.1	5.0
20-City Average	-27.0	14.3	6.3
Bottom 5			
Phoenix	-45.5	20.6	5.1
Las Vegas	-43.9	17.5	6.1
Miami	-40.7	19.9	8.6
San Francisco	-40.2	14.7	12.7
San Diego	-38.9	17.2	14.0
Detroit	-34.3	3.1	2.6

Source: Standard & Poor's, Census Bureau

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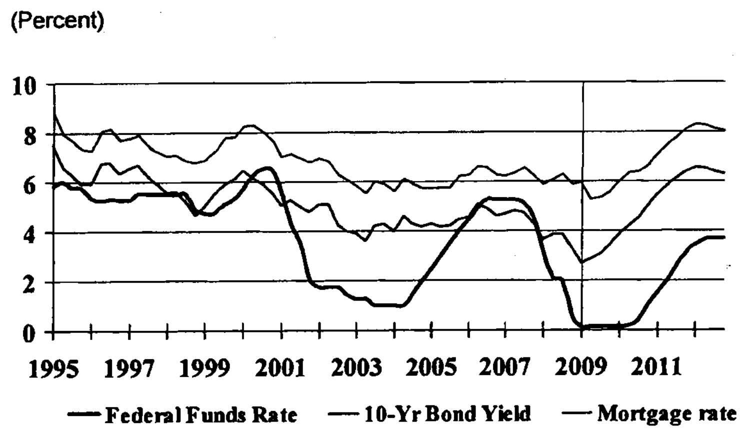
The Fed Is Still Cutting



Source: Federal Reserve

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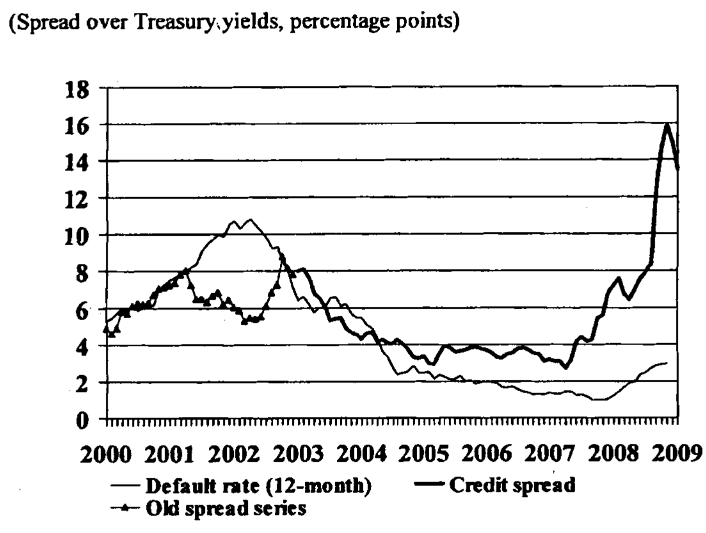
15.

Quality Spreads Are Widening From Record Lows



Source: Standard & Poor's Global Fixed Income Research

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16.

The World Is In Recession

- Industrial countries are in recession
- Declines in the US, Japan, and Europe and weakness in Asia
- The train has more engines attached
- And the world is thus less dependent on US growth
- We expect a slowdown in world growth, to 1.3% in 2009 from 3.8% in 2007
- The most synchronized world recession in recent memory

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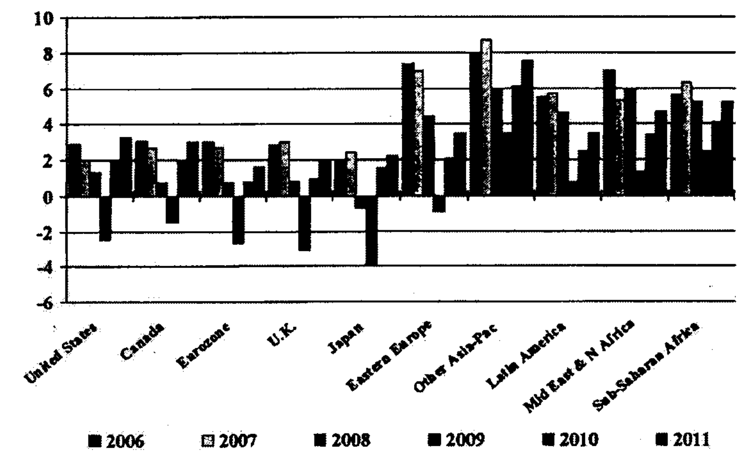
World Growth Has Slowed

(Real GDP, % change)



Source: Global Insight and S&P

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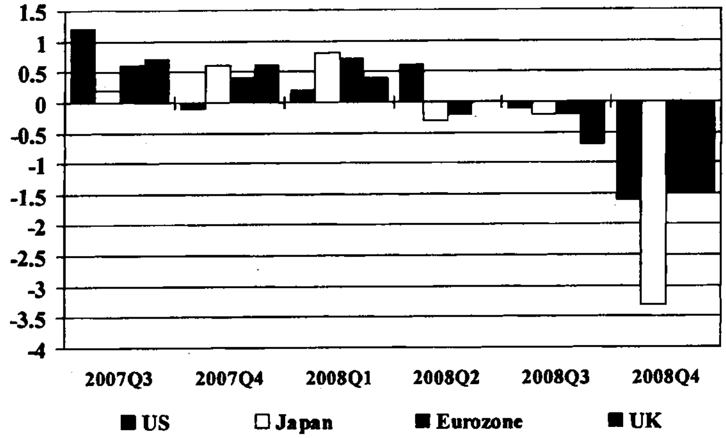
All Fall Down

(Percent change, quarterly rate)



Source: National sources

19.

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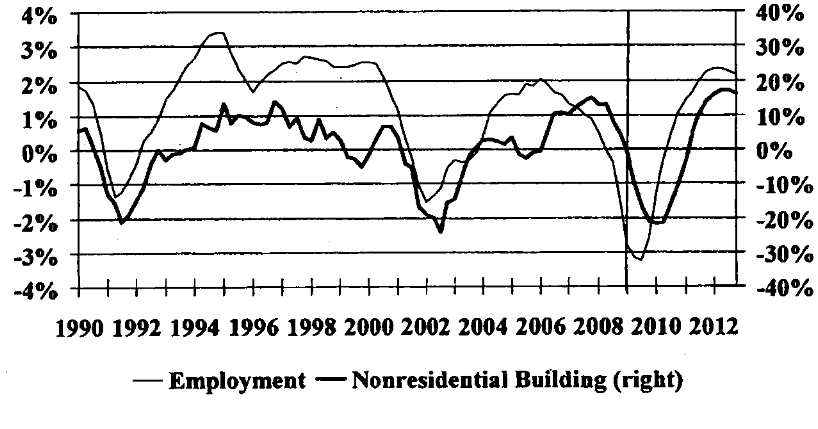
Weaker Employment Is Hurting Construction

(4-quarter percent change)



Source: BLS, BEA

20.

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Can the Consumer Keep Spending?

- Consumer spending has led the expansion
- But wealth is down because home prices are dropping and
- Stocks are weak
- Borrowing is more difficult, and home equity loans much less available
- Confidence has dropped and unemployment risen
- Consumers are likely to save more
- Rebates will provided some quick cash
- Most of which has been spent
- And falling oil prices give back some purchasing power

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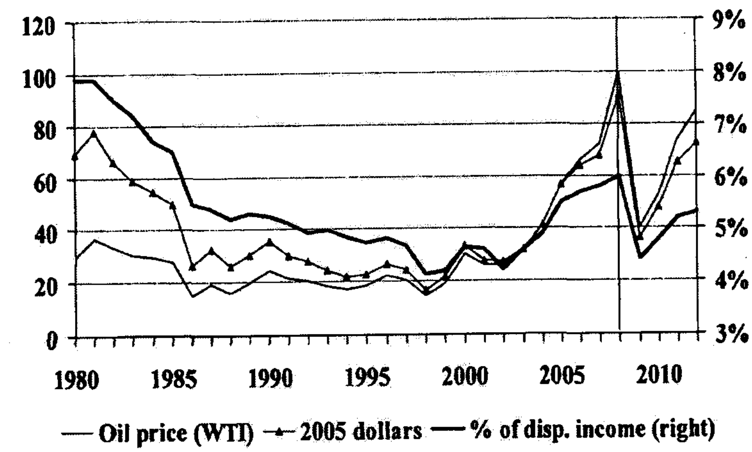
Oil Prices Hit New Records

($/barrel, WTI and deflated by CPI;
household energy purchases as percent of disposable income)



Source: BEA

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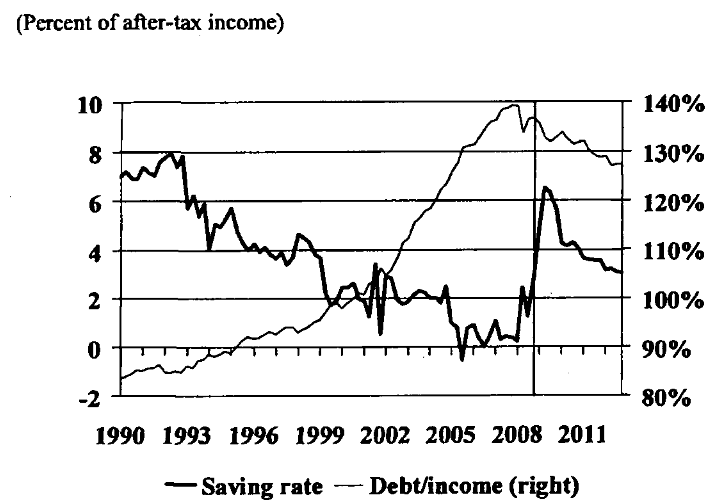
No Savings, But Lots of Debt



Source: BEA and Federal Reserve

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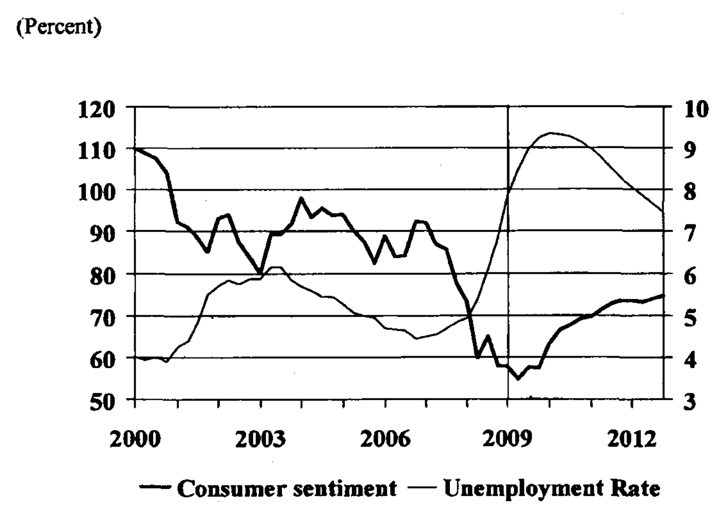
High Unemployment Scares Consumers



Source: BLS and University of Michigan Survey Research Center

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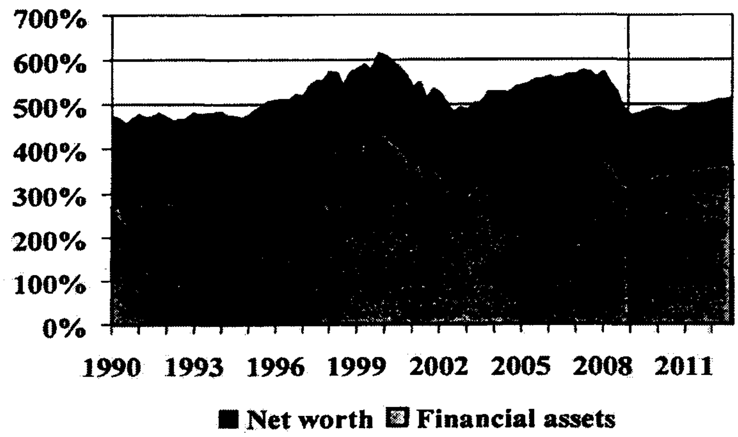
Wealth Slides With Home Prices

(Percent of after-tax income)



Source; Federal Reserve

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Bigger Than The Average Bear

- Double-digit earning gains for a record 18 quarters
- But earnings are now down for five consecutive quarters
- Profits were at a record high relative to GDP
- Share prices cannot outpace earnings
- Especially when interest rates rise
- Stocks were overdue for a correction
- We think the market will improve, but slowly.
- The current long-term cycle may have another bear in it, however.

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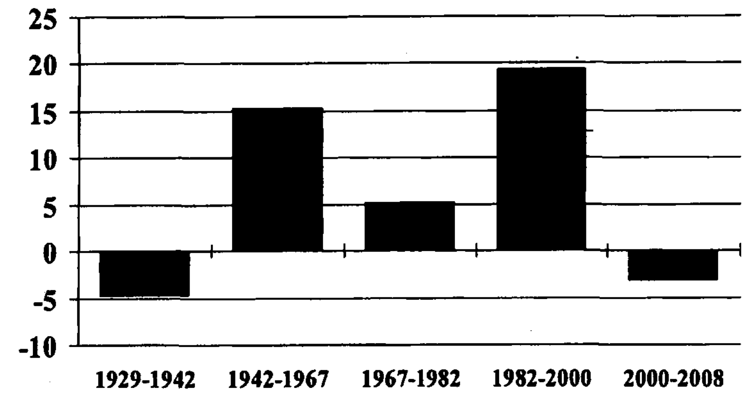
Stocks Cycle

(Annualized total return, S&P 500)



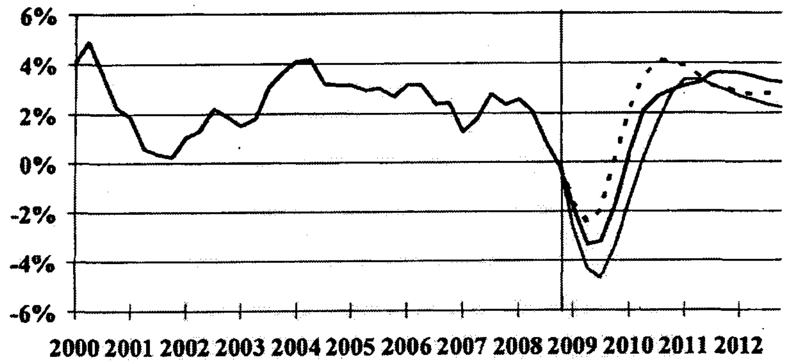
Source: S&P

Bottom Line: The Economy Will Recover Slowly

- **The recession is expected to be moderate**
- **But fiscal policy stimulus will end, keeping the recovery slow**
- **If financial markets remain locked up**
- **Home prices continue to fall**
- **And oil prices continue to rise**
- **This could turn into the deepest recession since WW II**

Risks to the Economy

(Real GDP, percent change year ago)



—— Baseline —— Pessim - - - Optim

Source: BEA, S&P projections

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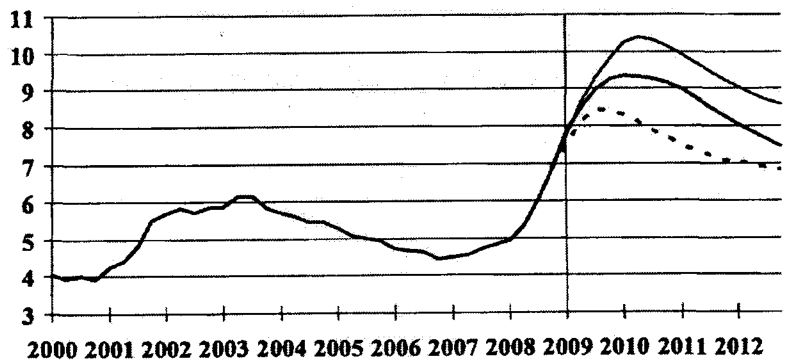
Risks to the Economy

(Unemployment rate)



—— Baseline —— Pessim - - - Optim

Source: BLS, S&P projections

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New Energy for America

Anne Selting, Director
Dimitri Nikas, Director
Todd Shipman, Director
Swami Venkataraman, Director

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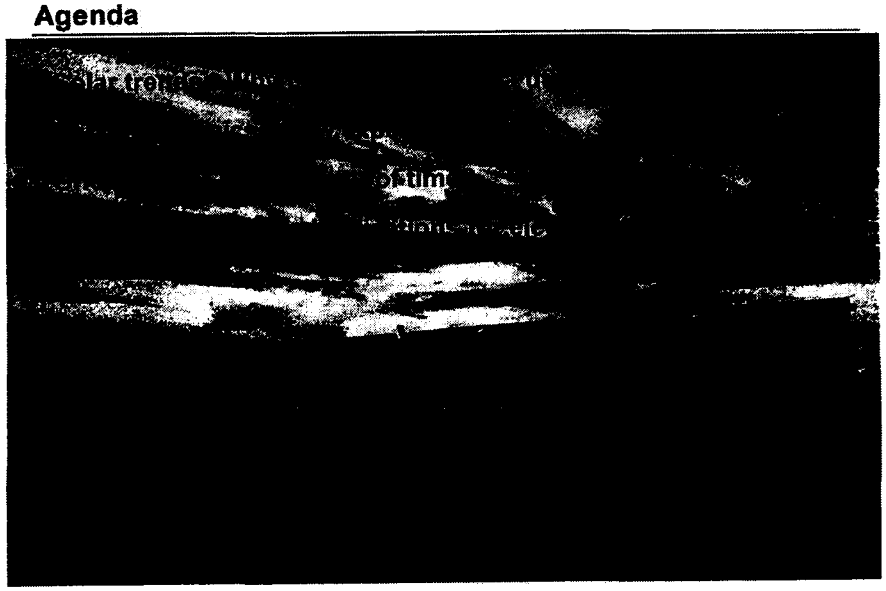
Solar Technology Shines Brightly

Anne Selting

Director
Utilities & Infrastructure Ratings

Thomas Edison in conversation with Henry Ford, 1931

Agenda



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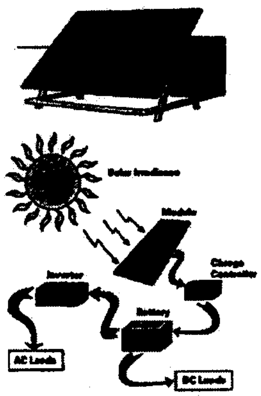
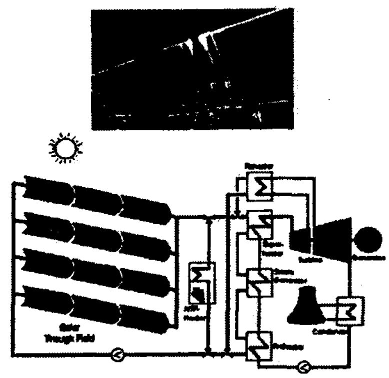
Two Broad Categories of Solar Power

Solar PV – Use the Sun's light to produce electricity



Can be used anywhere in the U.S, although costs rise as insolation falls

Solar Thermal – Use the Sun's heat to produce electricity



Predominantly in Southwest U.S. (requires direct and ideal sunlight conditions)

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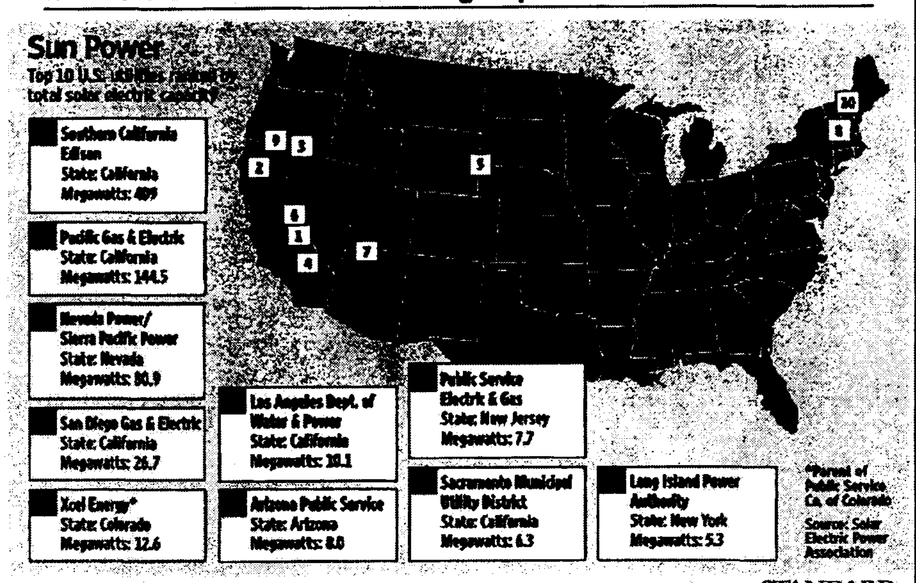
Investor Owned Utilities Among Top Solar Utilities



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Utility Scale PV Announced Since 2008

Utility	PV Project Size	Estimated Cost $m	Implied all-in PV cost $/w	Overview
Southern California Edison	250	$875	$3.50	Targets rooftops of comm'l & industrial customers; (1-2 MW), SCE owns system, power used to meet utility needs. LOCE is 27 ¢/kWh, install in 2009-2013
San Diego Gas & Electric	52	$250	$4.00	Targeting open areas and parking lots, 1-2 MW, 2/3 owned and operated with 1/3 owned by host customers
Pacific Gas & Electric*	500	$1,450	$4.30	PV at utility substations or related sites; 1/2 utility owned, balance provided by 3rd parties. Size: 1 to 20 MW install is 2010-2014. LOCE is 29.5 ¢/kWh
Public Service Electric & Gas	120	$776	$6.44	35 MW located on PGE&G property; 43 MW on local government rooftops; 40 MW on utility poles/streetlights; 2 MW affordable housing rooftops
Totals	922	$3,351		

*Cost information pertains to 250 MW of utility owned generation, all in costs not available; $4.30/w is captial cost only

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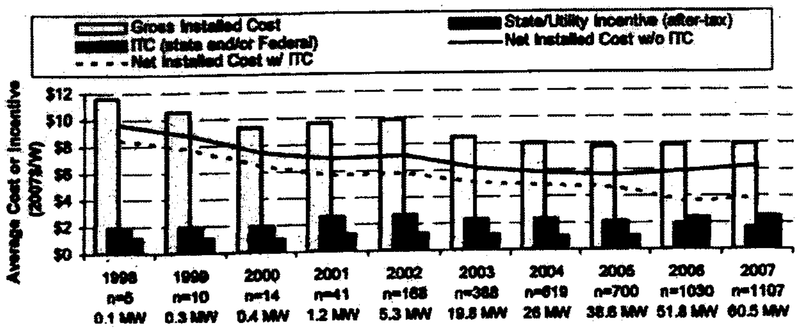
PV Costs Show Declines, Subsidies Important to Installed Costs



Source: Department of Energy's Lawrence Berkeley National Laboratory

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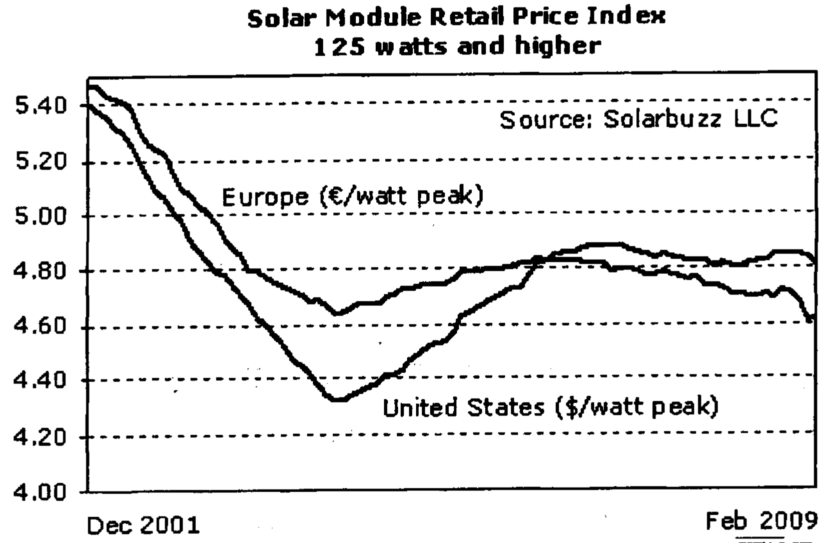
PV Module Prices Show Limited Declines in Last Few Years



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Commercial PV Needs ITC to Compete Using 2007 Install Costs

Installed Costs for Commerical PV at $7.60/watt-dc						
Location	Intalled Costs ($/W)	LCOE no Federal ITC (c/kWh)	LCOE with Federal ITC (c/kWh)	Lifetime (years)	Estimated Retail Rates (c/kWh)	Difference in Cost (c/kWh)*
San Francisco, CA	$7.60	30.45	21.48	30	13.09	8.39
Daggett, CA	$7.60	25.92	18.29	30	13.09	5.20
Phoenix, AZ	$7.60	27.02	19.06	30	8.91	10.15
Albuquerque, NM	$7.60	26.47	18.67	30	8.63	10.04
Atlantic City, NJ	$7.60	35.47	25.02	30	14.78	10.24
Hartford, CT	$7.60	38.19	26.94	30	15.99	10.95
Honolulu, HI	$7.60	29.44	20.77	30	30.02	(9.25)
New York City, NY	$7.60	36.15	25.51	30	16.81	8.70

Calculated as LCOE with the ITC less the estimated retail electric rate

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PV Competitive at $2.50/Watt, Without ITC in Some Markets

Installed costs of $2.50 in the future						
Location	Installed Costs ($/W)	LCOE no Federal ITC (c/kWh)	LCOE with Federal ITC (c/kWh)	Lifetime (years)	Estimated Retail Rates (c/kWh)	Difference in Cost (c/kWh)*
San Francisco, CA	$2.50	11.53	8.58	30	13.09	(4.51)
Daggett, CA	$2.50	9.82	7.3	30	13.09	(5.79)
Phoenix, AZ	$2.50	10.23	7.61	30	8.91	(1.30)
Albuquerque, NM	$2.50	10.02	7.46	30	8.63	(1.17)
Atlantic City, NJ	$2.50	13.43	9.99	30	14.78	(4.79)
Hartford, CT	$2.50	14.46	10.76	30	15.99	(5.23)
Honolulu, HI	$2.50	11.15	8.29	30	30.02	(21.73)
New York City, NY	$2.50	13.69	10.19	30	16.81	(6.62)
**Calculated as LCOE with the ITC less the estimated retail electric rate*						

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Summary

- **PV adoption may only be an issue for utilities with all three of the following:**
  - Strong subsidies and state and local policies to encourage solar adoption
  - Steady, high electric rates and
  - Solid insolation (e.g., good quality solar)
- **Utilities likely will have time to react to increasing PV penetration, as price declines for solar modules are expected to be incremental, occurring over several years**
- **Decoupling could be needed to maintain credit quality if PV becomes a significant substitute for central station power**
- **Stranded costs not foreseen at this time, given uncertainty over timing and likelihood of grid parity**

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New Nuclear Generation a Decade Away

Dimitri Nikas

Director
Utilities & Infrastructure Ratings

Challenges Remain Much The Same

- High costs, although opportunities to lock in lower commodity costs may materialize
- Long construction periods
- Un-tested licensing framework
- Lack of recent construction experience
- Shallow supply pipeline

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Balancing Progress with Ongoing Challenges

- **State regulatory frameworks have evolved to incorporate elements that support construction of new nuclear plants**

- **Credit supportive elements include:**
  - Pre-approval of construction costs and schedules
  - Periodic reviews
  - Recovery of cash return on construction work in progress
  - No retro-active ratemaking for previously approved investment
  - Recovery of abandoned investment

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Balancing Progress with Ongoing Challenges

- **Untested licensing framework**
  - Site approval, reactor design certification and single license to build and operate address shortfalls of earlier construction cycles
  - Need to finalize designs in order to move forward
  - Inspections, Tests, Analyses and Acceptance Criteria – Uncertainty as to how to facilitate satisfactory compliance

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Balancing Progress with Ongoing Challenges

- Department of Energy's Loan Guaranty Program is open to both regulated entities and merchant generators
- Requires first lien on project assets necessitating novel approaches for utilities with first mortgage bond indentures
- Necessitates that joint owners cross-collateralize each other's obligations
- Program expires on Sept. 30, 2009 – Prospects for renewal not yet clear
- No guarantees yet issued for nuclear plants, but current allotment dwarfs submitted requests

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Balancing Progress with Ongoing Challenges

- **If nuclear plant investment is large relative to a company's balance sheet, all other parts of the company must perform very strongly in order to provide ongoing financial support**
- **Balance sheet size is important consideration:**
  - Maintain balanced capital structure and ability to absorb some project delays or cost over-runs
  - Should a project need to be abandoned
  - In adjusting rates during the construction period to recover return on construction work in progress

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Balancing Progress with Ongoing Challenges

- Recession and falling commodity prices can alter dynamics that support new nuclear construction, including project economics and local support
- Nuclear plants are attractive when natural gas prices are high, especially in regions where natural gas sets the marginal cost of power
- Current economic slowdown may adversely influence resource planning decisions that stretch out 5 or 10 years and hamper resource diversity efforts

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Balancing Progress with Ongoing Challenges

- Lack of fully wrapped engineering, procurement and construction contracts has been partly addressed
- Contracts tend to provide for a portion of total costs to be fixed, a portion to escalate at some mutually agreed upon index, and a portion to be paid at the prevailing market rates
- No hard demarcation limits
- Regulatory framework may include provisions that address exposure, i.e. escalations may be approved annually for recovery

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Balancing Progress with Ongoing Challenges

- Even with some delays and some cost over-runs, some plants will be built, potentially paving the way for more to come as technology and supply pipeline mature
- Long-term horizon benefits construction in terms of projected load growth despite current economic slowdown
- Lack of emissions but addressing spent-fuel may allay critics
- Companies and regulators need conviction their actions are in the best interests of ratepayers

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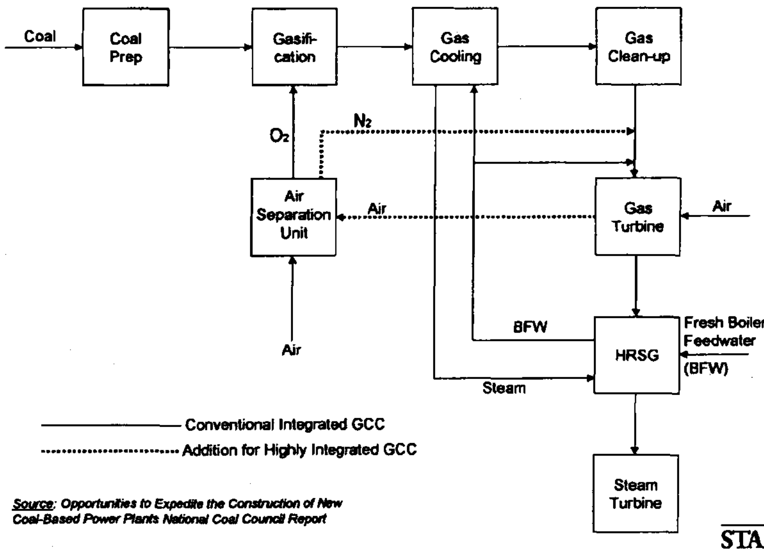
The Future of Clean Coal

Todd Shipman

Director
Utilities & Infrastructure Ratings

IGCC Technology

IGCC Process Flow Diagram



Source: Opportunities to Expedite the Construction of New Coal-Based Power Plants National Coal Council Report

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IGCC's Strengths

- **Domestic Source of Energy**
- **Fuel-flexibility and Efficiency**
  - Thermal Efficiencies of 40-43% vs. PC's 33-35%
  - Heat Rates of about 8500 Btu/Kwh
  - Fuel flexibility to include other coal types or Pet Coke but with some performance deterioration
- **IGCC's Environmental impact approaches that of natural gas**

Pollutant	PC[1]	IGCC[2]	NGCC[3]
NOx	100%	43%	29%
SO2	100%	32%	1%
Hg	100%	31%	0%
CO2	100%	64%	53%
SW	100%	45%	0%
Water Use	100%	67%	44%

[1]With SCR, FGD, FF. [2] With SCR, MDEA. [3] With SCR

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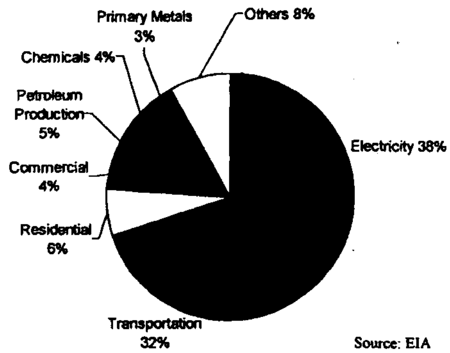
IGCC's Strengths

Carbon Capture is the big differentiator

- Significant potential for carbon regulations
- The "Insurance Premium" analogy
- IGCC can capture CO2 far more effectively than PC units
- The power sector is the largest source of CO2

Sources of CO_2 Emissions



Source: EIA

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IGCC's Challenges

Construction Risks

- Utility-style EPC vs. traditional licensing for IGCC plants
- Contractor infrastructure

Capital Costs

- A capital cost premium of 15-25%, depending upon configuration
- Capital cost and heat rates worsen with low rank coals, and substantially more so than PC technology
- Configuration and cost of a "reference" IGCC plant unclear, specially for PRB and lignite coals
- Overall cost of electricity is higher without carbon capture

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IGCC's Challenges

Reliability and Operations – The 'I' in the IGCC

- IGCC's greatest challenge is low reliability
- Reliability problems have occurred with ASU, turbine and gasifier
- Existing demonstration power plants have never exceeded 80% availabilities
- Technology vendors claim 85%, still lower than PC units

CCS is a technical and cost challenge

- Not a matter of uncertainties surrounding geologic injection
- The technical challenge is keeping the CO2 permanently sequestered
- Also legal issues on liability for accidents
- Cost challenges involve uncertainties on
  - Cost to sequester (30% - 40% energy loss)
  - Cost of carbon

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IGCC Part of the Solution

The answer to the question today is "No"

- Technology and performance aside, highly unlikely to be viewed as an "alternative fuel" anytime soon
- Does not mean it has no future, but short-term barriers are plentiful and high – opponents appear ready to object to any coal plant
- Coal still a large part of base load generation and resource plans
- Long-term, we think IGCC will be a part of the solution, but the technological and cost challenges must be met

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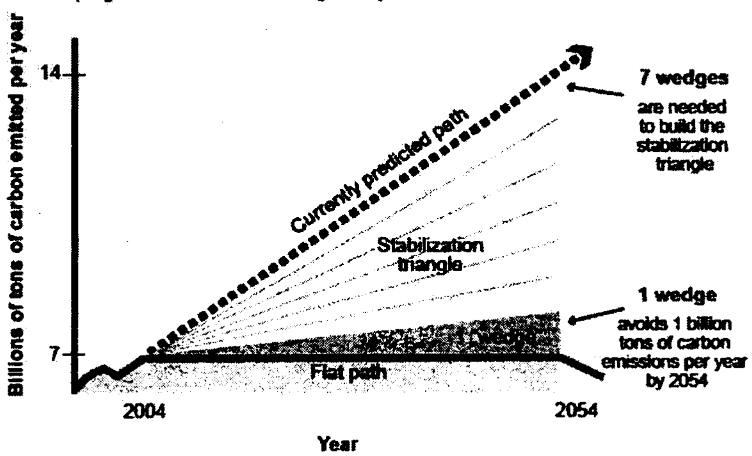
The Credit Impact of Climate Change

Swami Venkataraman

Director
Utilities & Infrastructure Ratings

Climate Change – The Big Picture

- Scientific CO_2 target of 450 – 550 ppm
- 50-yr timeframe is appropriate
- Developing countries modeled to grow by 60-80%



Source: S. Pacala and R. Socolow, "Stabilization Wedges: Solving the Climate Problem for the Next 50 Years with Current Technologies," Science, 13 August 2004, 968–72.

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What does one wedge mean?

Efficient Buildings...	...cut emissions by 25% in buildings/appliances by 2054
Efficient Cars...	...increase fuel economy for 2 billion cars, 30 to 60 mpg
Efficient Baseload Coal Plants...	...raise efficiency of 1,600 GW coal power from 40% to 60%
Fuel Switching To Gas From Coal...	...replace 1,400 GW coal plants with gas plants
Carbon Capture At Power Plant...	...introduce CCS at 800 GW coal with 90% capture
Nuclear Power For Coal Power...	...adds 700 GW (twice the current capacity)
Wind Power For Coal Power...	...adds 2,100 GW peak wind capacity (40 times current) to displace coal at 30% capacity factor
Solar Power for Coal Power	...adds 2,100 GW peak solar capacity (700 times current) to displace coal at 30% capacity factor
Ethanol Fuel For Fossil Fuel...	...50 times combined Brazil and U.S. production, using 1/6 of the world's cropland to power 2 billion cars

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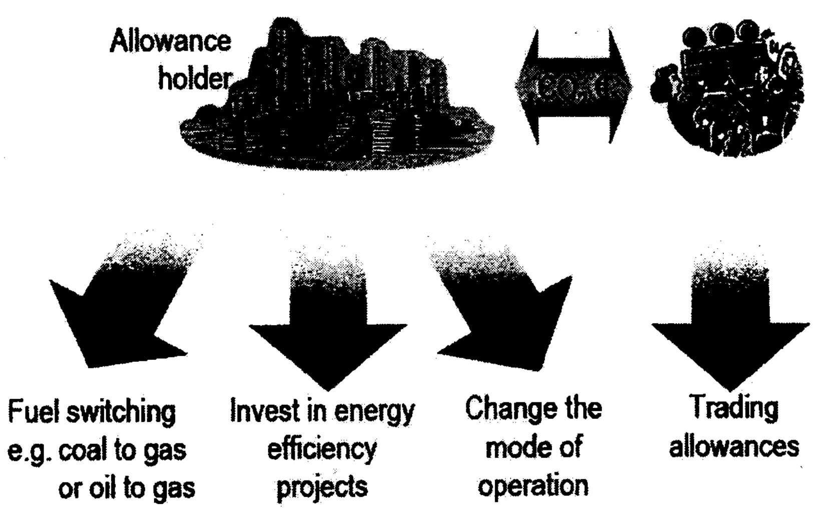
The Power and Auto Sectors – A Study in Contrast



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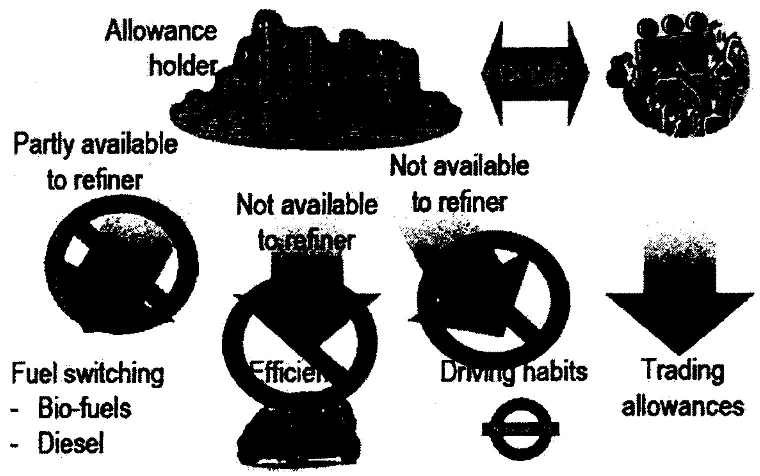
The Power and Auto Sectors – A Study in Contrast



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The Impact on Existing Assets

- **Assignment vs. Auctioning of credits**
  - Excess profits from credit allocations – EU ETS vs. RGGI
- **Impact of Carbon Credits on Power Prices**
  - Efficiency, nuclear, renewables to reduce demand. Offsets will set price floor
  - Fuel-switching will set marginal price *initially*
  - CCS will be marginal option over long-term
- **Two key drivers of total economic cost of compliance**
  - Characteristics of the power markets in the region
    - Fuel in the Margin; Gas price Effect
  - Portfolio Composition – Fossil-Heavy; Diversified; Carbon-Lite

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64.

STANDARD & POOR'S

Impact Of Portfolio Composition On Cost Of Compliance

Ratio Of 2026 To 2007 EBITDA			
(%)	Base	GHG1	GHG2
Fossil-Heavy Portfolios			
Company 1	208	97	79
Company 2	201	102	91
Company 3	293	117	80
Company 4	173	103	94
Diversified Portfolios			
Company 5	255	184	181
Company 6	166	115	115
Company 7	259	199	200
Carbon-light portfolios			
Company 8	190	206	238
Company 9	173	171	184
Company 10	202	259	249

STANDARD &POOR'S

Hours on the Margin in 2026: Boxer/Sanders minus Base Case (%)

Zone	Coal	Gas CC	Gas CT	Gas ST	Hydro	Nuclear	Oil	Other
ERCOT-North	15.6	(13.7)	0.4	(2.2)	0.0	0.0	0.0	0.0
FRCC	7.6	1.6	0.6	(0.9)	0.0	0.0	(8.8)	0.0
ISO-NE-Boston	0.2	17.2	(2.6)	0.1	0.0	(1.0)	(10.2)	(3.6)
ISO-NE-North Ex-Boston	0.9	7.5	(2.0)	(0.6)	0.0	4.1	(12.5)	2.7
ISO-NE-Norwalk+SW CT	(0.6)	30.1	0.2	0.0	0.0	0.0	(24.7)	(5.1)
NYISO East	(0.8)	14.2	(1.9)	0.0	0.0	0.0	(5.1)	(6.5)
NYISO Zone J (NYC)	0.0	(13.9)	4.9	1.7	0.0	0.0	7.4	(0.0)
RFC-AEP	33.7	(32.0)	(0.6)	0.5	0.0	0.0	(0.4)	(1.2)
RFC-Cinergy	14.3	(13.2)	(0.7)	(0.2)	0.0	0.0	(0.1)	(0.1)
PJM-East	28.9	(22.9)	0.1	0.2	0.0	0.4	(3.3)	(3.0)
PJM-West	29.1	(28.2)	(0.7)	0.1	0.0	0.0	(0.3)	(0.0)
SERC-Entergy	2.5	6.1	1.0	(6.0)	0.0	0.0	(0.7)	(3.3)
SERC-South	16.1	(12.8)	(1.7)	(0.9)	0.0	0.0	(0.7)	(0.1)
SERC-TVA	19.0	(17.0)	(2.2)	0.0	0.0	0.0	0.4	(0.3)
NP-15	0.8	(8.8)	(1.3)	(8.3)	0.0	0.0	(0.1)	14.7
SP-15	9.3	(4.3)	(0.7)	(8.1)	0.0	0.0	0.0	3.7
WECC-Wyoming	46.1	(50.9)	6.3	0.0	0.0	0.0	(0.1)	(1.4)
Average	13.1	(8.3)	(0.1)	(1.4)	0.0	0.2	(3.5)	(0.2)

STANDARD &POOR'S

The Cost of Compliance

Fuel Mix Changes

	2007	2026		
(%)		Base	GHG1	GHG2
Coal	51	46	37	30
Gas	16	28	25	25
Nuclear	19	15	17	18
Water	8	6	6	6
Wind	1	1	6	6
IGCC	0	0	0	3
Geothermal	1	0	0	0
Other (mostly biomass, landfill gas, wood, fuel cells)	2	3	3	3
Residual oil	3	0	0	0
Energy efficiency	0	0	5	8

STANDARD &POOR'S

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Move to Lunch

James McGraw Hall
50th Floor

STANDARD & POOR'S

Capital Markets Panel Discussion

John Whitlock, Managing Director, Standard & Poor's – Moderator

Paul I. Cutler, Treasurer, FPL Group
Peter Madonia, Managing Director, J.P. Morgan, Inc.
Carrie Saint Louis, Research Analyst, Fidelity Management & Research

STANDARD & POOR'S

Regulatory Panel Discussion

Richard Cortright, Managing Director, Standard & Poor's – Moderator

David C. Boyd, PhD, Minnesota Public Utilities Commission
David Hardy, Indiana Utility Regulatory Commission
Katrina McMurrian, Florida Public Service Commission
Erin M. O'Connell-Diaz, Illinois Commerce Commission

STANDARD
& POOR'S

Conversation & Cocktail Reception

Please join us!

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, March 12, 2009 9:06 AM
To: McGill, James T(Z71171); Omanovic, Rufad (Z72366)
Subject: Quick question

In the statement of cash flows, is the "change in margin and collateral accounts" cash flow adjustment current or long term?

Tony

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, March 12, 2009 11:09 AM
To: 'Bettinelli, Antonio'
Subject: RE: Quick question

The answer is both. The breakdown for PWCC is in footnote 18 on pages 136 and 137. APS breakdown is in footnote S-3 on page 156. You need to exclude number on the Mark-to-market line because they are non-cash. The sum of all the rest of the numbers in the 2008 table minus the sum of all the rest of the numbers in the 2007 table equals the sum of Change in margin and collateral accounts - assets and Change in margin and collateral accounts - liabilities on the Statement of Cash Flows.

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, March 12, 2009 9:06 AM
To: McGill, James T(Z71171); Omanovic, Rufad (Z72366)
Subject: Quick question

In the statement of cash flows, is the "change in margin and collateral accounts" cash flow adjustment current or long term?

Tony

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, March 12, 2009 1:39 PM
To: McGill, James T(Z71171)
Subject: RE: Quick question

Ok, thanks. I was able to reconcile.

From: James.MCgill@pinnaclewest.com [mailto:James.MCgill@pinnaclewest.com]
Sent: Thursday, March 12, 2009 2:09 PM
To: Bettinelli, Antonio
Subject: RE: Quick question

The answer is both. The breakdown for PWCC is in footnote 18 on pages 136 and 137. APS breakdown is in footnote S-3 on page 156. You need to exclude number on the Mark-to-market line because they are non-cash. The sum of all the rest of the numbers in the 2008 table minus the sum of all the rest of the numbers in the 2007 table equals the sum of Change in margin and collateral accounts - assets and Change in margin and collateral accounts - liabilities on the Statement of Cash Flows.

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, March 12, 2009 9:06 AM
To: McGill, James T(Z71171); Omanovic, Rufad (Z72366)
Subject: Quick question

In the statement of cash flows, is the "change in margin and collateral accounts" cash flow adjustment current or long term?

Tony

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, March 16, 2009 3:19 PM
To: 'Bettinelli, Antonio'
Subject: PPA Information

Attachments: RenewEnergyPayment.xls

RenewEnergyPaym
ent.xls (36 KB)...

REDACTED

2008 Q4 - 1/8/2008
CURRENT RENEWABLE PPA ENERGY COSTS ($Millions)

	Aragonne Mesa 1 (Wind)	CE Turbo Salton Sea (Geo)	Cambrian 27th Avenue Landfill	Abitibi Snowflake White Mountain Power (Biomass)	Sexton City of Glendale Landfill	High Lonesome Wind Ranch (Foresight - NM Wind)	Solana CSP Generating Station
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2023	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2024	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2025	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2026	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2027	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2028	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2029	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2030	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2031	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2032	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2033	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2034	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2035	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2036	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2037	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2038	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2039	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2040	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2041	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2042	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Start Date	Jan-07	Jan-06	Apr-09	Jun-08	Sep-09	May-09	Mar-12
Term	20 Years	24 Years	20 Years	15 Years	20 Years	30 Years	30 Years

Based on 2008 Q4 and represents expected energy payments for energy delivered to APS.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, March 16, 2009 3:19 PM
To: 'Bettinelli, Antonio'
Subject: Liquidity Survey

Attachments: 200812 S&P-Liquidity Survey_modified.xls

200812
-Liquidity Survey_m

REDACTED

ARIZONA PUBLIC SERVICE COMPANY
Primary and Secondary Liquidity Calculations
December 31, 2008
($000)

Bank Balance	$	[redacted]
Cash Collateral Held		[redacted]
Cash on Hand		[redacted]
RLC		[redacted]
Outstanding Balance		[redacted]
Outstanding L/Cs		-
Available Credit Lines		[redacted]
Market Value of Discretionary Inventory		-
Cash Posted for MTM		[redacted]
Cash Posted for Static Margin		-
L/Cs Posted for MTM		-
L/Cs Posted for Static Margin		-

Cash on Hand	$	[redacted]
Available Credit Lines		[redacted]
Cash / L/Cs Posted for MTM		[redacted]
Cash / L/Cs Posted for Static Margin		-
Market Value of Discretionary Inventory		-
Primary Liquidity	$	[redacted]

REDACTED

PINNACLE WEST CAPITAL CORPORATION
Primary and Secondary Liquidity Calculations
December 31, 2008
($000)

Bank Balance	$	[redacted]
Cash Collateral Held		-
Cash on Hand		[redacted]
RLC		[redacted]
Outstanding Balance		
Outstanding L/Cs		
Available Credit Lines		
Market Value of Discretionary Inventory		-
Cash Posted for MTM		[redacted]
Cash Posted for Static Margin		-
L/Cs Posted for MTM		-
L/Cs Posted for Static Margin		-

Bank Balance	$	[redacted]
Cash Collateral Held		
Cash on Hand		
RLC		[redacted]
Outstanding Balance		
Outstanding L/Cs		
Available Credit Lines		
Market Value of Discretionary Inventory		-
Cash Posted for MTM		[redacted]
Cash Posted for Static Margin		-
L/Cs Posted for MTM		-
L/Cs Posted for Static Margin		-

Cash on Hand	$	[redacted]
Available Credit Lines		
Cash / L/Cs Posted for MTM		
Cash / L/Cs Posted for Static Margin		-
Market Value of Discretionary Inventory		-
Primary Liquidity	$	[redacted]

REDACTED

S&P CELA CALCULATIONS

Credit Event Liquidity Adequacy
(Downgrade to Non-Investment Grade)
December 31, 2008
($000)

		APS		PWCC
Cash on Hand	$	[redacted]	$	[redacted]
Available Credit Lines		[redacted]		[redacted]
Cash / L/Cs Posted for MTM		[redacted]		[redacted]
Cash / L/Cs Posted for Static Margin		-		-
Market Value of Discretionary Inventory		-		-
Primary Liquidity	$	[redacted]	$	[redacted]
Negative MTM Exposure	$	[redacted]	$	[redacted]
JPM Futures Negative MTM Exposure		[redacted]		[redacted]
30-Day Exposure		[redacted]		[redacted]
Prepay Exposure		[redacted]		[redacted]
Increase in Static Margin		-		-
Triggers in Loans and Contracts		[redacted]		[redacted]
Commercial Paper		-		-
Unsecured PC Bonds (Daily Mode)		-		-
Total Liquidity Demands	$	[redacted]	$	[redacted]
CELA		[redacted]		[redacted]
S&P Recommended Minimum		[redacted]		[redacted]

3/23/2009

REDACTED

S&P MCELA CALCULATIONS
Market and Credit Event Liquidity Adequacy
(Downgrade to Non-Investment Grade and Market Stress)
December 31, 2008
($000)

	APS	PWCC
Cash on Hand	$ [redacted]	$ [redacted]
Available Credit Lines	[redacted]	[redacted]
Cash / L/Cs Posted for MTM	[redacted]	[redacted]
Cash / L/Cs Posted for Static Margin	-	-
Market Value of Discretionary Inventory	-	-
Primary Liquidity	$ [redacted]	$ [redacted]
Negative MTM Exposure	$ [redacted]	$ [redacted]
JPM Futures Negative MTM Exposure	[redacted]	[redacted]
30-Day Exposure	[redacted]	[redacted]
Prepay Exposure	[redacted]	[redacted]
Increase in Static Margin	-	-
Triggers in Loans and Contracts	[redacted]	[redacted]
Commercial Paper	-	-
Unsecured PC Bonds (Daily Mode)	-	-
Total Liquidity Demands	$ [redacted]	$ [redacted]
MCELA	[redacted]	[redacted]
S&P Recommended Minimum	[redacted]	[redacted]
Price increase by 15% in 1st yr and 20% thereafter		
MTM	[redacted]	[redacted]
JPMF	[redacted]	[redacted]
Price decrease by 15% in 1st yr and 20% thereafter		
MTM	[redacted]	[redacted]
JPMF	[redacted]	[redacted]

3/23/2009

REDACTED

S&P LIQUIDITY SURVEY

Line			Arizona Public Service December 31, 2008	Pinnacle West Capital Corp. December 31, 2008
1				
2	Company:			
3	Date (data as of)			
4				
9	**Section I - Sources of Primary Liquidity**		**Amount (millions $)**	**Amount (millions $)**
10	Question A1	Total Unrestricted Cash	$ [redacted]	$ [redacted]
11	Question A2	Availablity under committed bank lines	[redacted]	[redacted]
12	Question A3	Collateral posted	[redacted]	[redacted]
13	Question A4	Market Value of *Discretionary* Inventory	-	-
14	**Question A**	**Total Primary Liquidity (A1+A2+A3+A4)**	$ [redacted]	$ [redacted]
15				
16	Question A7	Collateral received from counterparties (cash only)	[redacted]	[redacted]
17				
18				
19	**Section II - Credit Event Liquidity Calls**		**Underlying exposure**	**Underlying exposure**
20	Question B1	Negative MTM related to credit thresholds	$ [redacted]	$ [redacted]
21	Question B2	Negative MTM related to adequate assurance	-	-
22	Question B3	Estimated 60-Day Exposure	[redacted]	[redacted]
23	Question B	Net Exposure (net as allowed by contractual terms)	$ [redacted]	$ [redacted]
24				
25	Question C	Static Margin	-	-
26	Question D	Triggers in loans & contracts	[redacted]	[redacted]
27	Question E	Commercial Paper outstanding (including PC Bonds)	-	-
28		**Total Credit Event Exposure (B+C+D+E)**	$ [redacted]	$ [redacted]
29				
30	CELA Ratio	Credit Event Liquidity Adequacy (A/(B+C+D+E))	[redacted]	[redacted]
31				
32	**Section III- Credit and Market Event Liquidity Calls**		**Line 31 after stress**	**Line 31 after stress**
34	Question F1	Neg MTM given a Credit Event + 15% price ***increase*** in 1st yr and 20% thereafter	$ [redacted]	$ [redacted]
35	Question F2	Neg MTM given a Credit Event + 15% price ***decrease*** in 1st yr and 20% thereafter	[redacted]	[redacted]
36	Question F	Take larger of the two above (F1 or F2)	$ [redacted]	$ [redacted]
37				
38	MCELA Ratio	**Market & Credit Event Liquidity Adeq (A/F)**	[redacted]	[redacted]
39				
40	**Section IV - Monthly Volume (realized physical sales and purchases)**			
41	Question G1	Natural Gas (mmbtu) Purchases	[redacted]	[redacted]
42	Question G2	Natural Gas (mmbtu) Sales	[redacted]	[redacted]
43				
44	Question G3	Power (MWh) Purchases	[redacted]	[redacted]
45	Question G4	Power (MWh) Sales	[redacted]	[redacted]
46				
47	Question G5	Crude Oil (bbl) Purchases	-	-
48	Question G6	Crude Oil (bbl) Sales	-	-
49				
50	Question H	Baseline Henry Hub Average One-Year Forward Price of Gas used for this survey ($/MMBtu)?	[redacted]	
51				
52	Question I	Absent a credit event and assuming a parallel shift of the entire forward curve, how high/low must the average one-year forward price of gas (Henry Hub) move before your company exhausts all sources of primary liquidity reported in Question A? Please consider both the effect of addtional margin calls as well as other working capital items. *	[redacted]	

Notes:

(a) Exclude cash collateral posted to back LCs.

(b) Gas inventory used for arbitrage trading will be considered a source of primary liquidity as long as the inventory is not pledged as security under the terms of an existing bank line.

(c) Assume that power and oil prices move in proportion to gas prices. Cash collateral from counterparties should NOT be counted as a source of primary liquidity.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Monday, March 16, 2009 3:22 PM
To: 'Bettinelli, Antonio'
Subject: Covenant Information

Attachments: For Tony.xls

For Tony.xls (55 KB)

ARIZONA PUBLIC SERVICE COMPANY
Calculation of Cash Coverage Ratio
Twelve Months Ended December 31, 2008
($000)

Consolidated Net Income	$262,344	
Extraordinary Items	0	
Income Taxes	107,261	
Depreciation & Amortization and Nuclear Fuel Amortization	416,709	
AFUDC Equity & Capitalized Interest	(32,949)	
Gross Deferrals	128,270	
"Interest Charges"	252,555	
Cash Flow	$1,134,190	A
Long-Term Interest	$170,071	
Short-Term Interest	13,432	
Sale/Leaseback Obligations Bond Interest	13,883	
Operating Lease Rentals	55,169	
Total "Interest Charges"	$252,555	
Annualized Interest on Proposed Long-Term Debt	43,750	
Pro-Forma Total Interest Charges	$296,305	B
Cash Coverage Ratio -- Minimum is 2.0	3.83	A/B

ARIZONA PUBLIC SERVICE COMPANY
FUNDED INDEBTEDNESS AS A PERCENTAGE OF CONSOLIDATED CAPITALIZATION
For The Month of December 2008
($ millions)

DEBT POSITION		**DEC**
Long-Term Debt less Current Maturities	$	2,850
Current Maturities of Long-Term Debt		1
Short-Term Debt		522
TOTAL DEBT AT PERIOD END	$	3,373
Proposed Long-Term Debt		500
TOTAL PRO-FORMA DEBT AT PERIOD END	$	3,873
APS EQUITY POSITION		
Common Stock	$	178
Additional Paid-In Capital		2,118
Retained Earnings		1,169
Accumulated Other Comprehensive Income		(126)
COMMON EQUITY PER BALANCE SHEET	$	3,339
FAS 71 Write-Off		140
FAS 133		99
TOTAL COMMON EQUITY AT END OF PERIO	$	3,578
PRO-FORMA CONSOLIDATED CAPITALIZATION *(Debt + Equity)*	$	7,451
PRO-FORMA FUNDED DEBT AS A % OF CONSOLIDATED CAPITALIZATION NOT TO EXCEED 65%		**52.0%**